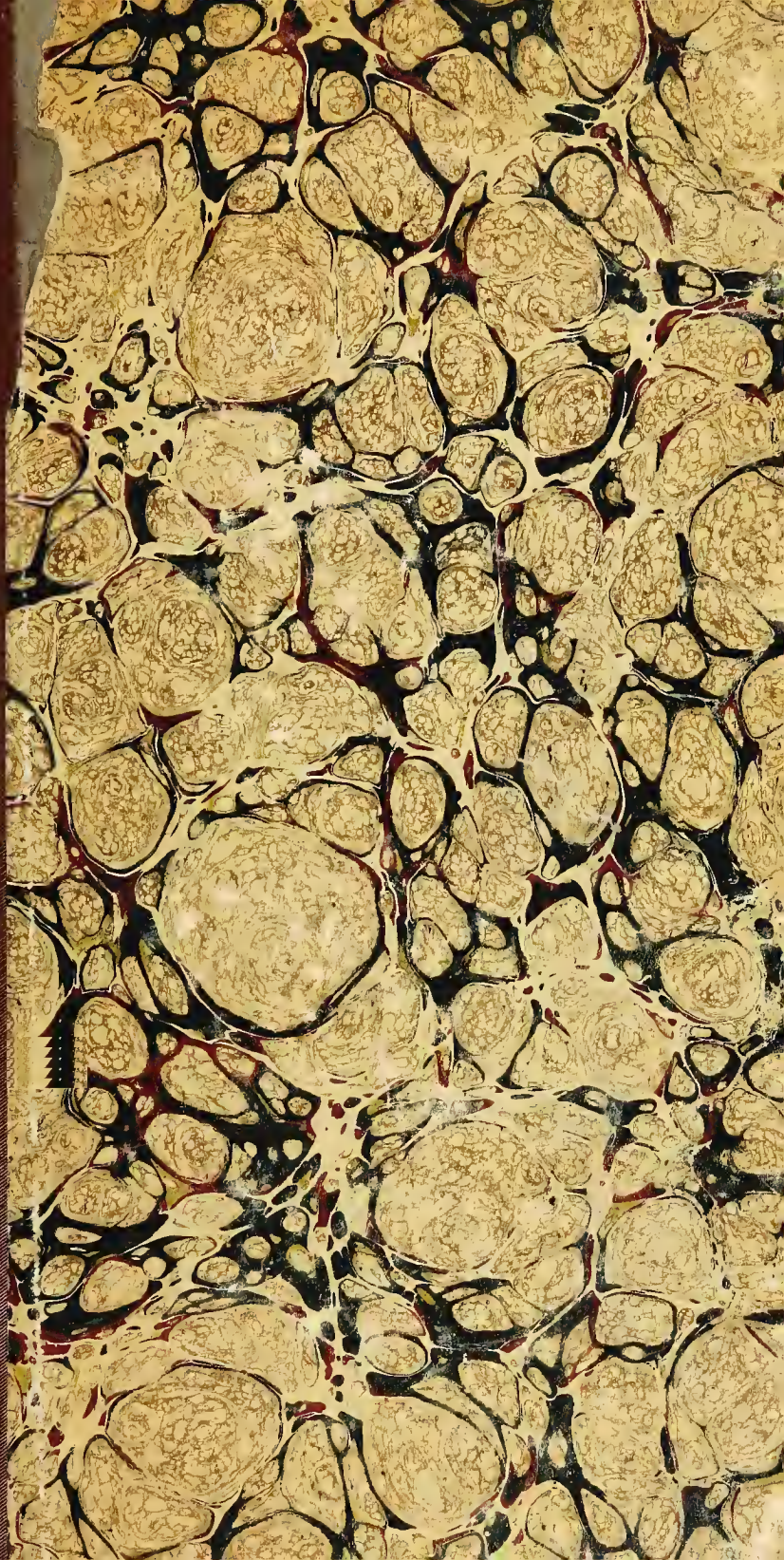
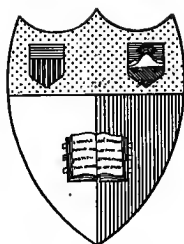






New York
State College of Agriculture
At Cornell University
Ithaca, N. Y.

Library

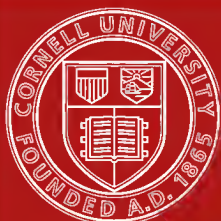
Cornell University Library
HG 2041.A5

Agricultural credit ...Report of the Uni



3 1924 013 776 145

main



Cornell University
Library

The original of this book is in
the Cornell University Library.

There are no known copyright restrictions in
the United States on the use of the text.

AGRICULTURAL CREDIT

LAND-MORTGAGE OR LONG-TERM CREDIT

REPORT OF THE UNITED STATES COMMISSION TO

INVESTIGATE AND STUDY IN EUROPEAN COUNTRIES
COOPERATIVE LAND-MORTGAGE BANKS, COOPERA-
TIVE RURAL CREDIT UNIONS, AND SIMILAR ORGANI-
ZATIONS AND INSTITUTIONS DEVOTING THEIR
ATTENTION TO THE PROMOTION OF AGRICULTURE
AND THE BETTERMENT OF RURAL CONDITIONS ::

(IN THREE PARTS)

PARTS I, II, AND III

WITH LEGISLATION SUGGESTED



PRESENTED BY MR. FLETCHER

JANUARY 29, 1914.—Referred to the Committee on Banking and Currency
and ordered to be printed

WASHINGTON

1914



LETTER OF TRANSMITTAL.

UNITED STATES COMMISSION "TO INVESTIGATE AND STUDY IN EUROPEAN COUNTRIES COOPERATIVE LAND-MORTGAGE BANKS, COOPERATIVE RURAL CREDIT UNIONS, AND SIMILAR ORGANIZATIONS AND INSTITUTIONS DEVOTING THEIR ATTENTION TO THE PROMOTION OF AGRICULTURE AND THE BETTERMENT OF RURAL CONDITIONS."

WASHINGTON, D. C., January 29, 1914.

To the Senate and the House of Representatives:

We have the honor to submit herewith Parts I and II of the report of the United States commission, appointed by the President and authorized by an act approved March 4, 1913, "to investigate and study in European countries cooperative land-mortgage banks, cooperative rural credit unions, and similar organizations and institutions devoting their attention to the promotion of agriculture and the betterment of rural conditions" and "to submit a report to Congress as early as practicable embodying the results of its investigations and such recommendations as it may see fit to make." Parts I and II relate to land-mortgage or long-term credit. Part III, relating to personal or short-term credit, will be submitted to Congress at an early date.

The information and evidence relating to agricultural cooperation and rural credit in Europe secured by the United States commission, in cooperation with the American commission assembled under the auspices of the Southern Commercial Congress as provided by law, was ordered printed as Senate Document No. 214 on October 20, 1913.

Respectfully,

DUNCAN U. FLETCHER, *Chairman.*
RALPH W. MOSS, *Vice Chairman.*
THOMAS P. GORE.
HARVIE JORDAN.
JOHN LEE COULTER, *Secretary.*
KENYON L. BUTTERFIELD.
CLARENCE J. OWENS.

PART I.



INTRODUCTION.

tive rural-credit unions, and similar organizations, and institutions devoting their attention to the promotion of agriculture and the betterment of rural conditions" were carefully "investigated and studied." Every assistance was given the commission to secure all information desired, not only by our own representatives of the State Department and the Department of Commerce, but also by representatives of the governments in the countries visited and by private citizens.

Since returning from Europe the commission has, with the aid of translators, a small clerical force, and other assistants acting with the American Commission, compiled, classified, and edited a great mass of detailed information obtained by its members and the members of the American Commission while in Europe. This information has been printed as a public document, Senate Document No. 214. The conclusions herein presented are based upon the knowledge gained by the members of this commission from personal investigation of agricultural conditions in all parts of Europe, from a careful study of the data and information compiled and published, as above set out, and from personal knowledge and considerable investigation of conditions in the United States which should and must affect any proposed system of agricultural reform.

Owing to the limited time at its disposal and to the limited appropriation, this commission has devoted its investigation to the question of agricultural credit and to recommending a plan for reform in the methods of financing farmers and farm operations in the United States. Various phases of agricultural reform, including cooperative purchasing, cooperative production and marketing of farm products, and a study of rural conditions have been covered to some extent by this commission and by the American Commission, and much of the information secured during the investigation into these matters is reproduced in the public document above referred to as Senate Document No. 214. This commission, however, has confined its report to a consideration of rural credit, to suggestions looking toward the creation of an adequate system of agricultural banks, and to an extension of the facilities offered by existing financial institutions, so as to meet the pressing needs of our farming population.

Agricultural credit naturally divided itself into two great classes, namely, long-term or land-mortgage credit, which may be briefly defined as "credit to meet the capital requirements of the farmer," and short-term or personal credit, which may be defined as "credit to meet the current or annually recurring needs of the farmer." In the European system of agricultural banks the distinction between these two classes of credit is sharply drawn. To meet the requirements of the two classes separate institutions are provided, differing fundamentally in their plan of organization and operation. These different institutions, however, naturally touch at many points. They have grown up by a slow process, and have been adapted and adjusted to meet conditions as they arose. They still preserve their separate identity, and their operations are largely confined to their separate fields. Whether the conditions in our country demand a segregation of institutions designed to meet these two classes of credit, as is the case in European countries, or whether one class of institutions can be designed to meet both needs, has been a matter of serious consideration and study by the commission. The differing conditions in

Europe and in the United States must, of necessity, have some bearing upon any decision that may be reached on this point. A knowledge of the work of our present banking system in its old form and as modified by the Federal reserve act in furnishing long-term, or land-mortgage, as well as short-term, or personal, credit for farmers is also necessary as a preliminary to reaching any decision on this point. In considering this question the commission has attempted to define, in the first place, the needs of the American farming population in a financial sense. As noted above, a careful consideration of this point has resulted in its defining these needs as being two in number, as follows:

First. The farmer's capital requirements, by which is meant the need of the farmer for large sums of money to be used in aiding to pay the purchase price of the farm, in improving his farm, such as erecting new farm buildings, draining, irrigating or clearing, or in equipping the farm so as to bring his operations to the highest state of efficiency.

The money needed for these purposes must be in the shape of a more or less permanent investment, or in the shape of loans extending over such a long period of time that they can be gradually reduced and paid off out of the increased earnings derived from the improvements made or the equipment added by the farmer with the proceeds of such loans. This is generally referred to as long-term or land-mortgage credit.

Second. The farmer's temporary or annually recurring requirements, by which is meant the money needed by him to finance his operations during the time that the crops are being produced. These temporary requirements recur every year and embrace the financial needs of the farmer for the purpose of preparing the land, sowing and cultivating the crops, and harvesting the same. This is generally referred to as personal or short-term credit. But the short-term credit of the farmer should be distinguished from the short-term credit of the merchant or manufacturer. The merchant requires banking accommodation for 30, 60, or 90 days, during which period he can dispose of the stock acquired and repay the loan; in contrast, the farmer may require short-term credit extending from the time the crops are planted until they are harvested, and this may be fixed approximately at from 90 days to 1 year. After the crops are harvested and stored in a barn, elevator, or warehouse, the need of agricultural banking is largely removed, as the financial handling of the crops so stored then comes under the province of commercial banking.

The questions, therefore, to be considered resolve themselves into the methods of furnishing for the farmer long-term, or land-mortgage, credit and short-term, or personal, credit. For convenience in discussing these two systems of credit, long-term, or land-mortgage, credit will be hereafter referred to as mortgage credit, because such credit must necessarily be based on the security of the land owned by the farmer and because such mortgage credit must for convenience be again subdivided into long-term mortgage credit and short-term mortgage credit, as will be hereinafter shown. Short-term credit, or personal credit, as above defined, will be hereinafter referred to as personal credit.

In the opinion of this commission these two general classes of credit must be largely segregated, although the two systems will naturally

touch at many points. Further, in the judgment of this commission, the development of a system of farm land banks is the most important and the primary step to be taken in order to improve our agricultural-credit conditions. It naturally and necessarily precedes the development of personal credit. The history of European systems has shown that the land-mortgage banks preceded the personal-credit banks. In this country it is urgently necessary to create a land-mortgage security which will be entirely liquid by reason of having a ready market, which will run for a long time, which can be paid off in small annual or semiannual installments, and which will enable the land-owning farmer to use most advantageously his best banking asset, land, as the basis of credit.

In this part of the report the problems of mortgage credit will be first considered, since definite recommendations have already been carefully prepared suggesting important national legislation. The problems of personal credit will follow in a separate section of the report to be submitted at an early date.

In discussing the bearing of the experience of the European countries upon this question, special reference may be made to Germany as an illustration, since both systems of credit have attained very great efficiency in that Empire and remarkable results to the farmer have been secured, doubtless to a large extent as a result of the growth of agricultural credit. If space permitted, this comparison could be extended to other countries which were visited by the commission to good advantage, but probably additional and extended comparisons would make this report too voluminous.

In considering the conditions in Germany, as applying to the conditions in the United States, the essential points of difference between the two countries should always be borne in mind. In size the German Empire is about equal to the area of the State of Texas after cutting off from Texas an area as large as the State of Alabama. In population the German Empire contains about 68,000,000 people, or more than two-thirds of the population of the whole United States. In intensive farming the Germans are far ahead of our own farming population, and the average production in Germany has increased greatly, while our average yield per acre has increased but slowly. In Germany the population in a given district is largely homogeneous, and the individual is, so to speak, attached to the soil, the same farms continuing in the same families for generations. In this country such a condition is seldom found. In Germany, on account of the limited supply of land and the large population, and on account of the known productivity of each piece of land, the value of that land is easily ascertained and varies within very slight limits. In this country the variations in value are very great. In Germany the average farm is about 20 acres; in this country the average farm is 138 acres. In Germany the credit and resources of the individual in a community are known to practically every other individual in that community; in this country no such accurate information is obtainable. In Germany the small farmer, his wife, and children all do manual work on the farm; in this country such a condition is rare. In Germany the people have been trained to a supervision and control of their operation by strict government regulations, which would not be favored in this country.

Bearing in mind these essential distinctions and considerations, we may now consider specifically the subject of mortgage credit.

PART II.

LAND-MORTGAGE OR LONG-TERM CREDIT.

PART II.

LAND-MORTGAGE OR LONG-TERM CREDIT.

DESCRIPTION AND ANALYSIS.

Mortgage credit, organized into a special system of banking, has existed in Europe since the reign of Frederick the Great. Beginning in Prussia, this system of banking has grown until mortgage institutions have been organized under authority of law in practically every European State. Neither in method of organization nor in detail of operation does there exist uniformity in type. The banks of one country, doing precisely the same character of business, may differ widely from those of another country; and it is possible to find divergent types in successful operation under the laws of the same country. Agricultural conditions do not vary more widely in the different States in our country than do conditions in the several states and provinces in Europe where these banks have been successfully operated over long periods of time. Therefore, a careful study of European experience with mortgage banks forces the conviction that the basic principles of mortgage banks are well adapted to meet the necessities of American agriculture. It is a question of wisely applying well-established principles rather than of copying methods of organization.

Land-mortgage bonds.—One general principle which underlies all mortgage banks of Europe is the issue of bonds which are based on the collective value or security of many individual mortgages on real estate. It is the merging of the credit demands and the property resources of many individuals, somewhat similarly situated, into one financial transaction. States, municipalities, counties, and other organized communities in the United States have adopted this principle. Public improvements of all kinds are commonly constructed from the proceeds of bonds issued against the total taxable wealth of a political division and are sold in the open markets. These bonds are justly popular and have made possible the construction of many mighty works of civilization.

Similarly, one of the chief advantages which corporate laws have conferred is the cheap credit which the concentration of resources has made possible. For this reason, principally, those lines of business which can be pursued under a corporate organization have made marvelous growth during the past few decades in the United States.

But agriculture is best adapted to individual ownership and management. The laws making possible cheap credit to political communities and to corporations have been of no advantage to agriculture. It is not singular that agriculture should languish in comparison with the growth of these other lines of human endeavor, but it is strange that we have neglected to extend the scope of these

laws so as to meet the business requirements of farmers whose calling prevents them from adopting corporate methods of transacting business.

Short-term and long-term mortgages and amortization.—Mortgage credit is generally divided into short and long term loans. This distinction is based upon the duration of the loan and also upon the method of repaying the principal sum. Short-term loans are defined for our purposes as those made for a shorter period than five years, the principal being repayable at the maturity of the loan. All loans exceeding five years are classified as long-term loans, the principal sum being repayable in small annual or semi-annual payments. The latter method of repayment is technically known as "amortization." The issue of land-mortgage bonds and the method of amortization payments are the distinctive features of European long-term mortgage credit which should be preserved in any American system of land-mortgage banking. Under this plan, the duration of a loan is determined by the rate of amortization, while the interest charge is fixed by the market value of the bonds and the bank's charge for administration. If 4 per cent bonds are selling at par and the bank charges thirty-five one-hundredths of 1 per cent for administration, then an amortization rate of fifty one-hundredths of 1 per cent will extinguish the debt in $54\frac{1}{2}$ years; that is to say, the borrower will pay the bank a rate of 4.85 per cent on the sum borrowed for $54\frac{1}{2}$ years. The bank divides this payment into three parts; 4 per cent goes to pay the interest due on the collateral trust bond which the bank issued to secure the money which was loaned to the farmer; fifty one-hundredths of 1 per cent is applied toward the payment of the principal, and the bank receives thirty-five one-hundredths of 1 per cent for expenses and profits. If the bond sells below par, either the farmer must pay a commission to the bank or the discount must be met by the bank from its administration fund; on the other hand, if the bonds sell above par, the premium may go to the borrower or to the institution in the form of profit. Generally speaking, the interest rate to the borrower is determined by the market value of the bank's collateral trust bonds, generally referred to as land-mortgage bonds, the rate to the borrower rising as the bond falls below par, and lowering as it advances above par.

If the rate for amortization is higher than fifty one-hundredths of 1 per cent, the loan will necessarily be extinguished in a shorter period than $54\frac{1}{2}$ years.

A limitation as to time is usually fixed by law as well as to the rate which the bank may charge for administration. In actual operation in Europe the time limitation varies in general from 30 to 60 years, and the charge for administration varies from fifteen one-hundredths of 1 per cent in a purely mutual association of borrowers to thirty-five one-hundredths of 1 per cent in joint-stock banks. The French law allows a margin of sixty one-hundredths of 1 per cent, as does the recent Spanish law. This charge is computed on the principal sum remaining unpaid, and in long-time loans it is therefore a constantly decreasing charge to the borrower.

These rates of payment for interest, amortization, and administration are definitely fixed in the terms of the mortgage and can not be changed by the bank. The borrower, however, is always given

the right to discharge his obligations at any interest period after a fixed time. This period is commonly designated in Europe as 10 years. This right is a double protection to the borrower. First, it protects the debtor against any demand for payment of his entire debt or an increase in the annual interest charges; second, the provision for repayment at pleasure gives the borrower complete protection against a general fall in interest rates. This will be a very important feature to American debtors, since the tendency in the United States will be toward lower interest rates for farmers. Under such a contract a borrower could safely assume a liability maturing regularly over a long period of time, because if interest rates were to fall he could borrow money elsewhere at the lower rate of interest, discharge his obligation, and thus secure the advantages of a cheaper rate on money.

Tax exemptions.—To place these collective farm loans at as low a rate of interest as the community is able to secure, the securities must be freed from taxation. This principle has been recognized generally in all legislation authorizing the issuing of bonds based on the taxing power. Both in federal and in state borrowing such bonds are generally freed from taxation. In the matter of real-estate mortgages, however, this principle is not so generally recognized. In some States mortgages are freed from taxation if the money is loaned at a rate not higher than that specified by the act granting immunity from taxation. In other States only a certain sum is relieved from taxation. In each of these exemptions, the State recognizes that a low rate of interest on mortgages is in the interest of the general welfare.

It can not be denied that taxation by a State of the mortgage and of the real estate on which the mortgage is predicated is double taxation. A farmer can not with safety go in debt for 60 per cent of the value of improved real estate and pay taxes on both the land and the mortgage. President Taft, in his letter to the governors of our States, asserted that farmers are paying higher interest rates than any other class of business men. It can be asserted with entire confidence that they are also paying a higher taxation in proportion to their property holdings than any other class of citizens. In the Middle West, where land values range from \$100 upward per acre, if the land be mortgaged for 50 per cent of its value, and if the mortgage is taxed, the debtor owner is investing \$50 per acre and paying interest on \$50 per acre. He is also paying directly the tax on the land and paying indirectly the tax on the mortgage. Under these conditions—rising land values and cumulative taxation—the land is slowly but surely passing away from resident ownership to landlord ownership. Farm tenancy is undeniably on the increase.

Without a modification of our taxation laws, however, the substitution of the European system of land mortgage will materially increase the possibilities of taxing fictitious values. Under that system the lender and the borrower have no direct relation with each other. The lender creditor does not receive the obligation of the borrower debtor, who issues his obligation—the mortgage—to a bank, and this bank in turn issues a second obligation—the collateral trust bond or land-mortgage bond—to the real creditor, the man who invests his money. If all these values are taxed—the land, the mortgage, and the bond—we will have increased the burden of

taxation, which, under present conditions, rests so heavily on owners of mortgaged real estate.

One of the leading purposes of a rational system of mortgage credits is to enable any honest, industrious agricultural laborer tenant to acquire, by a part payment of the purchase price, immediate control and ultimate ownership of a tract of land, and thereby check the growing evil of tenancy. At the same time the system should enable any owner of agricultural real estate to secure capital on terms which will enable him to improve his holding and to render his land more productive. In either instance, the terms must be such as to prevent temporary crop failure from driving the owner from his farm and from causing the loss of all savings. These are worthy purposes, and they will promote in the largest and best sense the general welfare of our Republic. These ends can not be attained in the highest degree except by a recognition of their public character and a remission of taxation on the paper values which are created in order to encourage the acquisition of farms by their operators and also the improvement of farm properties. The public retains all the values of property for taxation purposes, and these real values will be largely enhanced by the investment of large sums of capital which will be attracted to the farms under such legislation.

Land titles, exemptions, and foreclosures.—The titles to land, exemptions from execution, and legal processes for foreclosure in default of payment are important considerations in the operation of any system of mortgage banks. In Europe the States usually guarantee the titles, and the laws chartering mortgage banks usually grant special process of foreclosure. Moreover, there are usually no exemptions or homestead rights which are granted by law. The borrower is given low rates of interest, long time, and the right of repayment of the principal in small semiannual amounts; but if he neglects or refuses to keep his contracts as to these payments, then he must speedily forfeit his property. There are no long, expensive processes of foreclosure. But in the disposal of property by auction upon foreclosure proceedings the creditor takes only the amount of the debt plus foreclosure expenses, the balance of the proceeds of sale being returned to the debtor as his right.

Under our form of government these important matters are under State sovereignty and are subject to State legislation. Every student of the subject must conclude that the States should adopt some system of State guarantee of title, as, for instance, the Torrens system. It is against the best interest of the general public to have possible legal disputes over the ownership of land. The loss incident to such uncertainty falls primarily on the landowner, but in the end the loss is transferred to the general public because the food and shelter of the Nation is secured from the soil. It is a recognition of this economic fact which justifies and sustains wise legislation to promote the best interest of agriculture. European Governments have generally recognized this fact. The same may be said of Australian and Canadian Provinces. Some American States have taken the first step, and the United States Government has recognized the principle by prescribing the Torrens system for the Philippine Islands.

It is obvious that a collateral trust land-mortgage bond will become a prime security on the general market if there is any doubt as to the ability of the bank which issues it to meet the required payments.

ments promptly. The bank can have but two sources of income for this purpose; one is the contract payment to be made by the borrower, and the other is the sale of the land in case of default of such payment. In European countries such default is of rare occurrence and the sale of mortgaged property very exceptional. In our own country, where the earning capacity of our people is greater than on the Continent, such default, under similar contract provisions, would be practically nil; but the legal process for prompt relief, in case such default should occur, is imperative for the protection of the bank which has guaranteed these payments to the holder of the collateral trust land-mortgage bond. Herein lies the chief difficulty which our dual form of government imposes if this system of banks is to be organized under Federal charter.

Area of operation.—These considerations naturally suggest the State as the unit for the operation of a mortgage bank. The laws of a State are uniform. The value of an issue of collateral trust land-mortgage bonds by a bank depends on a correct valuation of the mortgaged lands; and long-time loans involve a supervision or oversight as to the management of the property to prevent depreciation in the security. These very important features can be arranged most advantageously if the operations of the bank be restricted within a reasonable area. Moreover, European experience indicates that mortgage banks succeed best when confined to a limited area. Our States approach in area many of their largest nations. Hence it is quite certain that a State is the largest political division against which a series of collateral trust bonds should be issued by a mortgage bank.

General characteristics.—There are other restrictions which should be imposed on mortgage banks. Their resources should always bear a fixed ratio to their liabilities. The earlier mortgage banks in Europe were permitted to issue collateral trust bonds up to 20 times the amount of their capital and surplus. The tendency has been to reduce this volume to 15 times their resources, which would seem to be a better ratio. At this proportion, banks reported to this commission that they were declaring annual dividends at from 12 per cent to 14 per cent, so that no just complaint can be made on the basis of earning power.

The capital and surplus of the mortgage bank should not be entirely invested in long-term mortgage loans, but should be invested in other securities. The resources of the bank may very properly be advanced in loans for short periods, pending an issue of its collateral trust bonds, or they might be temporarily invested in its own securities. The full success of a mortgage bank can not be assured unless a market is always present for its bonds. The desirability of a security, from an investment standpoint, does not depend wholly on the rate of income; the question of a ready cash market at a fixed value—its convertibility into cash at the will of the holder—is an important feature of an investment. The land-mortgage bond is an invention to render liquid the value of real estate; and, therefore, the bank which issues these collateral trust bonds should be prepared to repurchase them when they are offered on the market. Much of the capital of the bank should be available for this purpose and should not be tied up in long-time loans.

From its nature, mortgage business is distinct from commercial banking. In mortgage banks the money to be loaned is derived from the sale of bonds, and the capital of the bank is to be largely invested in interest-bearing securities. Short-time personal loan business should be avoided or minimized, deposits should be restricted, either in amount or kind. Yet experience has demonstrated that mortgage banks should accept a limited volume of such business. The nature of their business dealings with their clients lead the latter to desire to leave money in their care for short periods and for special purposes. The bank should collect bills, drafts, and other similar paper. Thus, for the convenience of its clients, mortgage banks should be permitted to receive deposits of money, but careful restrictions along this line are desirable.

Type of institution.—There can well be honest difference of opinion as to the style of corporation which is best adapted to promote long-time rural credit. European experience can give but little help to solve this question. The oldest form is the *landschaft*, which is a purely cooperative association of borrowers. Originally the *landschaft* was a mutual association, in which the borrowers assumed an unlimited mutual liability. A member owning real estate mortgaged his lands and was given the amount of his mortgage in *landschaft* bonds based on the collective value of all the lands of the members of the association. He then sold the *landschaft* bonds to whatever customer he could find. The association simply issued bonds against a collective security and delivered these bonds to the borrower in exchange for his mortgage, but it gave no assistance to the borrower in either selling the bonds or sustaining their value in the market after the sale. The *landschaft* was a pure association of borrowers. These bonds, while perfectly sound, were not highly liquid.

Later joint-stock banks were established, with that alertness which capital always displays, accepted the bond feature of the *landschaft*, but organized a selling agency to dispose of the bonds issued by the bank and delivered to the borrower, supported by ample capital to repurchase these bonds when they were offered on the market. These banks were thus able to supply the borrower with the money rather than with their own bonds, and by their constant readiness to repurchase their securities in the market rendered these bonds liquid. The proportion of capital to the bonds issued was such as to fully guarantee the soundness of the issue. This competition in turn induced the cooperative association or *landschaft* to organize selling agencies, or a banking division, which receives the bonds issued by the *landschaft*, sells them in the market, and gives the cash proceeds to the borrower. Thus the business methods of the two extreme types of banks in Germany are almost exactly the same.

It is to be noted that the "new *landschaft*" associations limit the liability of their membership, thus the more closely approaching the joint-stock banks in business methods. The main differences are, the joint-stock banks have a subscribed capital and declare dividends, whereas the *landschaft* do not have share capital and do not declare dividends. Both organizations, however, make profits and accumulate surplus funds.

Landschaft associations can loan only on rural real estate within the province where they are chartered, whereas joint-stock banks

loan on both urban and rural property. Both types are in successful operation, and, in our opinion, either type can be successfully operated in different parts of this country with varying degrees of success.

We recommend, however, as best suited to our people, a bank with a foundation share capital limited to loans on agricultural real estate within a circumscribed area. The minimum capital should not be less than \$10,000, with compulsory increase, either by accumulation of surplus funds or sale of capital stock in proportion to the increase in the volume of its business.

Cooperative banks.—The general spread of cooperation among the farmers of the United States should be fully recognized and every opportunity should be given for the growth of these cooperative principles. In the judgment of the commission, any legislation providing for the establishment of land-mortgage banks should authorize the establishment of cooperative as well as private joint-stock institutions. Any attempt to force all institutions into one form would probably fail. There should, however, be no differences in the methods of doing business, the only difference being in the form of organization.

Both types of institution should without doubt be required to have a foundation capital. Even the *landschaften* have, during the last quarter of a century, found it advantageous to have *landschaft* banks organized as sister institutions. This follows American practice in business generally, since even farmers' cooperative societies almost uniformly start with at least a small share capital.

The American people are so thoroughly accustomed to the principle of double liability that no attempt could advantageously be made to reduce it. Mortgage banks organized by farmers are likely to be small at first in many parts of the country, and for that reason, if no other, it would be wise to authorize these to assume any amount of liability desired by the members. Having in mind the effect upon the selling value of the bonds in the open market, it might be wise to emphasize the advantage of assuming a much higher liability. Greater liability than that generally approved in the country at the present time should not, however, be required.

The only difference in organization prescribed by law would be: (1) Cooperative banks would be required to limit the number of shares of capital owned by each member, while the other banks would make no limitations; (2) in cooperative banks each member would have one vote and only one, no matter how many shares of stock he owned, while in other banks each share of stock would have one vote; (3) in cooperative banks, after a small rate of interest had been paid, the remainder of the net earnings, if any, would be distributed among the patrons on the basis of business done, in contrast with the distribution of all net earnings in the form of dividends on capital stock in the other institutions. Under the plans suggested, there is no reason why any group of farmers in any county should not organize its own institution on cooperative principles. It would also be thoroughly practicable for any larger group of farmers already organized for other purposes (such as a state grange, union, alliance, or equity society) to form a large central state institution on cooperative principles, with all the strength of similar institutions found in the various European countries visited.

State aid.—There is room for an honest difference of opinion as to the question of state aid, if only European experience is consulted. A few illustrations will suffice. In Austria, the mortgage banks are state or provincial institutions whose bonds are guaranteed by the state or province chartering the banks. In Hungary, there is a compromise between these two principles, the State advancing a part of the foundation capital, while founders' shares were sold to secure additional capital. The control of the institution rests between those who contributed the founders' shares and those who make the loans. In France, the State gave a subsidy of \$2,000,000 to the Crédit Foncier, and gave it a monopoly of the long-term mortgage business. The remainder of the capital, however, has been raised by the sale of stock, and in all essential features this bank is a private joint-stock institution with certain special privileges granted by law.

In every instance in Europe where government capital has been granted to establish mortgage credit, the results have been favorable to the agricultural interests of that nation. It is our opinion that such aid should not be extended in the United States. Our farm property is computed to be worth \$40,000,000,000, and is rapidly increasing in value. Surely this vast property, whose value is as stable as the foundations of our Government, is sufficient to attract capital in ample volume to improve and cultivate its area, without subvention from our Government Treasury. The idea of Federal aid is always attractive and commands many able and earnest advocates; but self-help should be the motto of our new agriculture. If given the opportunity, under liberal enactment of law, the savings of our Nation will gladly invest in this safe field and relieve the Federal Treasury of any necessity to finance the project. It is wise legislation, rather than liberal appropriations or loans, which rural credit mostly needs at our hands.

Charter.—It is a mooted question whether these banks should be chartered by the States or the Nation. There can be no question but that it is a subject entirely appropriate for the State legislatures. If the question could receive serious consideration from every State and fairly uniform legislation were to be enacted without undue delay, it is to be conceded that this would be a happy solution, but the experience in this country in the effort to secure uniform legislation regarding negotiable instruments, divorce laws, etc., has demonstrated the difficulty of securing uniform State legislation by independent action.

Moreover, it is true that the investing class in the United States seems to place more confidence in Federal than in State supervision of financial institutions. Whether this confidence is justified or not, the fact remains the same, and certainly any system which increases the confidence of the investor in the securities to be issued is worthy of serious consideration. *****

With 48 States, each creating under its own laws separate land-mortgage banks, limited in their operation to that State, or, perhaps, authorized to operate in other States, with each bank issuing debentures based on valuations made under its State laws, with the reserved rights in the States to amend, alter, or repeal the charters of such banks, and with the competition for investment money thereby necessarily aroused when the various State banks offer their mortgage

bonds to the public, as well as for other reasons too numerous to mention, it would seem that as a practical question the incorporation of land-mortgage banks under Federal charter is desirable.

Bonds as investment.—Moreover, it will be conceded that land-mortgage bonds, if properly issued and secured, should be accepted as a legal investment for the great accumulations now gathered in savings banks, in insurance companies, and in postal savings. It can hardly be hoped that these land-mortgage bonds shall be recognized as a first-class liquid security if they are shut out from these great accumulations of money. It would hardly be fair to shut them out from these accumulations when railroad, municipal, State, and national bonds can be used by the same, or some of them, as an investment. With varying laws in the different States and with varying methods of supervision and control under different State laws, it would be extremely difficult to have these bonds recognized generally as a proper and legal investment for these accumulations and for trust funds or of funds under the direction of the court. But if these bonds were issued by banks chartered by the National Government, which banks were subject to a rigid supervision on the part of the federal officers, a uniformity would be brought about which would be desirable, and the bonds would be much more likely to be accepted as a legal investment for these funds.

Moreover, with varying conditions and laws as to the registration of land titles and as to conveyances, as to taxation of mortgages and as to methods of foreclosure, it would become exceedingly difficult for the investor to ascertain just which of the banks chartered by the different States was issuing bonds most desirable for investment. The necessity for comparing these differing conditions, and the very fact that differing conditions existed, would make the investor more timid and would tend to prevent the security from becoming liquid. But, on the other hand, the Federal Government, by authorizing the creation of such banks under federal charter, can readily impose conditions and restrictions upon the operation of such banks and can readily extend certain privileges to such banks only when its conditions are complied with, thereby tending to standardize the land-mortgage bonds issued against the lands in any given State and tending to secure a uniformity in the laws governing the registration of land titles, conveyancing, taxation of mortgages, and methods of foreclosure.

Land-mortgage bonds, when issued under rigid Government supervision, form an ideal kind of investment or trust security, because they bear a fair rate of interest, command a ready market, and exhibit great stability of value. All speculation is avoided by restricting mortgage banks to the granting of loans to private owners of land; and when such loans are granted, to the issuing of collateral trust bonds only to the amount of the loans. The capital of the bank is required to be invested chiefly in other safe interest-bearing securities, and this remains as an additional security to the holders of the bonds. Under these conditions such bonds are of the highest type of absolutely safe investment. Their value in no wise depends upon speculative elements and varies but little, presenting a favorable contrast with railway and commercial stocks and bonds. Even English consols have declined from 113 in 1896 to 90 in 1912. Other prominent commercial securities have recorded an even wider range

in price. No such variation in price can be found in any series of mortgage bonds which were issued under Government regulation.

Such securities justly merit a wide investment field on account of their intrinsic worth. The National Government is fully justified in extending a generous recognition to these bonds because they are issued to aid and develop agriculture. All commercial banks, savings banks, insurance companies, and other like institutions should be permitted and encouraged by State and Federal legislation to invest their funds in these bonds; both State and National Governments, as well as private enterprises, should receive these bonds as approved collateral in all transactions including like securities. The Government may not justify the use of public funds to promote purely private enterprises, but we are beginning to comprehend that the Government itself is a cooperative enterprise.

Conclusions.—Day by day we are using the power of the whole people to do more cheaply or more efficiently some duty which had hitherto been performed by the individual. In agriculture we have been a pioneer people, actively engaged in taking possession of the surface of a great empire. Our farmers have been engaged in the hard labor of improving their farms, building school-houses and churches, and constructing bridges and roads for the public welfare. Science has but recently informed us that the fertility of our soils must be maintained and where depleted must be restored. We all know that our herds of meat-bearing animals must be increased.

While it may be said that these duties pertain particularly to the individual farmers, it can be answered in reply that farmers have not been able to accumulate sufficient free capital to meet the present situation. Our population has grown more rapidly than our agriculture has been able to expand on a scientific basis. It has been possible for our railroads and other highly organized industries to look forward to the future and estimate the rapidly growing demands of the public on their services. And yet, in many directions, we can see that our population has outrun the ability of our public-service corporations to serve them efficiently.

Agriculture has been the one great national industry which has been without organization and has been absolutely helpless before the wonderful growth of our Nation. Therefore, the financing of our farms has become a national problem. The savings of the Nation must flow out to the farms in order to put agriculture on a proper basis as compared with other organized industries. This can only be done by wise and patriotic legislation. Farm securities must be honored by Nation, by State, and by individual. Fortunately everybody will profit by such cooperation. The investor—from the smallest creditor to the largest capitalist—can purchase a security which has been thoroughly investigated by a bank under strict Government inspection, and which in addition is guaranteed by the capital of the bank. He has secured a bond which is practically as safe as a security can be. The owner of the property has been equally accommodated, since he can readily secure a loan on his property up to 50 per cent of its value. The general public will be greatly benefited, because the cost of living will always be predicated upon the great law of supply of foodstuffs produced from the

earth, and the volume consumed by the people who inhabit the earth.

There should be no hesitation, therefore, in enacting legislation which will give land-mortgage bonds—which are the basis of all true long-term rural credit—that favorable position which is always accorded State and Federal bonds, for both are based on the public wealth and are issued to strengthen and to perpetuate our Nation.

In closing this section of its report the commission desires to refer to the fact that the commercial world has had constructed for it a magnificent system of commercial banks; the frugal laborers and savers of the cities have their system of savings banks and building and loan associations, and the great corporations have their trust companies. All of these and other similar financial institutions assist in the financing of the agricultural industry to some extent, but none of them is adequate or can be made adequate to supply this special need without a sacrifice to their present field of endeavor. The commission recognizes that too great ease in borrowing should not be encouraged, since this might result in an unreasonable increase in farm debt. On the other hand, it should not be forgotten that under the present system tenancy continues to increase and farmers have outstanding obligations easily exceeding two billions of dollars secured by mortgages on their farms, much of which was negotiated under very unfavorable circumstances and with very high rates of interest. It is believed that under the plans which have been formulated herein, and which are intended to be supplementary to the existing system, tenancy may be decreased, the needs of farmers be taken care of, and at the same time the outstanding obligations may be refunded on much more favorable terms and gradually reduced by the regular payment of small annual installments impossible under the general system now found in this country.

As carrying out the conclusions reached by this commission in its efforts to formulate a plan for the creation of land-mortgage banks, a form of bill has been drafted, which is attached to this report as a part thereof, and which is respectfully recommended to the consideration of Congress as an outline of legislation providing adequate facilities for meeting the needs of the farmers for long-term or land-mortgage credit.

INTERPRETATION OF LEGISLATION SUGGESTED OR A STATEMENT OF THE CONSIDERATIONS WHICH HAVE LED THE COMMISSION TO SUGGEST THE BILL SUBMITTED HEREWITH.

[See page 53 for text of bill.]

GENERAL STATEMENT.

As indicated in the discussion contained in this report the commission was confronted from the beginning with several questions, fundamental in their character and requiring decision before any definite plan could be agreed on.

MORTGAGE CREDIT AND PERSONAL CREDIT.

Foremost among these was the question as to whether any system of banking could properly provide for the needs of both mortgage and personal credit or whether it should be limited to the former. Some of the members of the commission were at first strongly imbued with the idea that both phases of the problem should be combined in any proposed legislation. A bill looking toward this end had been introduced in the Senate by one of the members of the commission, and this bill received the most careful consideration. But, after a more careful and thorough study of the two problems, the commission decided to draft a bill dealing exclusively with mortgage credit, and that the requirements of personal credit could be more suitably met by a separate measure.

The commercial banking system, as outlined in the Federal reserve act, is essentially a system designed to meet short-time credit requirements. Unquestionably, the commercial banking bill recently adopted will largely extend the facilities now afforded for stable conditions in banking; for an avoidance of the panics which have heretofore threatened our whole financial structure; and, through the system of rediscounting provided, will provide for an increase or decrease in the volume of our currency to correspond with the requirements of business.

These provisions will benefit the farmer as well as the other great industrial classes of the country; and while it would seem that many of the requirements of the farmer could not be provided for in a pure system of commercial banking, yet it was felt that with the changes in the commercial banking system the needs of the farmers would be partially met, while those not specifically covered in that system could be best dealt with through additional legislation.

CENTRAL BANK V. INDEPENDENT BANKS.

A second great question which confronted the commission was the question as to whether it should recommend a central bank, which alone should issue land-bank bonds based on mortgages guaranteed by local institutions and forwarded to the central bank. The arguments in favor of such an institution were elaborately presented and carefully considered. It was urged, with great force, before the commission that a single central bank of issue, having a large capital and alone emitting land-bank bonds, would create a confidence in the investing public which would tend to improve the market for mortgage loans, which would standardize the farm bond as an investment, and which would in many ways redound to the interest of the farmer. The plan of creating a number of small banks, limited in their operations to subdivisions of the State, controlled and operated by local people, paying restricted dividends and ultimately becoming mutualized, was worked out in detail and carefully considered. The plan of having these institutions guarantee the mortgage loans made in the community and of forwarding them through a State institution owned by these small local institutions (and which, in turn, would guarantee such mortgages) up to a national institution, which alone should issue land-bank bonds, was fully considered. The advantages and disadvantages of such a plan were thought to be worthy of such serious consideration that a bill outlining this method and providing for every detail of the operation of such banks in connection with mortgage credit was drawn up and fully discussed.

But, after a most careful consideration of this suggested plan, the commission was convinced that this was not the best system. Recognizing the public sentiment which seems to exist against a central institution in any banking proposition, and yet feeling that the matter merited the fullest consideration on its merits, the commission gave to it the most careful study. As a result it became convinced that the system outlined in the bill which it had formulated possessed advantages which a central bank plan would not possess and encouraged competitive banking to an extent that would not be possible under a bill providing for a central institution.

ADVANTAGES OF INDEPENDENT BANKS.

As against the central bank idea, the bill suggested by the commission affords competitive banking. It is founded on American models. It is based, to a large extent, on the plan of our national banking system, changed as the commission deemed wise to overcome the difficulties which had heretofore been shown to attach to the national banking plan. Under the provisions of this bill, any 10 people can organize a separate and independent bank with a minimum capital, with a fixed ratio between that capital and the volume of land-bank bonds which the banks may issue, and with an area of operations as wide as the State in which they are organized. Competition is invited in the organization of such institutions. The right to organize such institutions is given to everyone, and the greatest latitude in operation is afforded that is thought to be consistent with soundness and safety.

STATE OR FEDERAL INCORPORATION.

The commission recognized that mortgage credit deals of necessity with land; that the laws affecting land are State laws; that there are 48 States in the United States in which the laws governing conveyancing, registration, foreclosure, exemption, taxation, and other subjects relating particularly to land are under State control and differ in various particulars. It recognized that while the Federal Government might exercise supervision over the land-bank bonds issued by banks organized under Federal charter, yet the problem must of necessity be largely controlled by State laws and State requirements. It believed that every latitude should be allowed to enable the incorporators of such a bank to meet these local conditions provided that a strict Federal supervision over issues of land-bank bonds and over the rules governing such banks which were not affected by specific State laws was adequately provided for.

RECOMMEND FEDERAL CHARTERS WITH OPERATIONS LIMITED TO STATE AREA.

In consequence the commission has concluded that, while competitive banking should be encouraged, yet the loans of each bank should be limited to one State. The land-bank bonds issued by such a bank, based on mortgages or deeds of trust upon lands in a single State, where the general provisions regarding conveyancing, registration, foreclosure, taxation, exemption, etc., are the same, would form an ideal kind of investment at home and abroad.

That it would be unwise to extend the area of loan operations of a single bank beyond the confines of a given State must be apparent. In order to secure the confidence of the investing public, the mortgages or deeds of trust held by the banks issuing them as a security for their land-bank bonds must be governed by the same general laws. It would tend to destroy the confidence of the investor if he should feel that these mortgages were subject in part to the laws of one State and in part to a differing set of laws of a different State. It is obvious that the land-bank bonds of the banks issuing them should be based on mortgages or deeds of trust which are similar, certainly in so far as these fundamentals are concerned.

VARYING INTEREST RATES IN DIFFERENT STATES.

The commission also recognized that conditions in the various States are different, that the rates of interest paid for money vary in different localities between large extremes, and that the legislatures of the various States have recognized these varying interest rates by establishing widely varying legal rates of interest on loans. In one State the legal rate will be 6 per cent, while in another State it may be as high as 10 per cent, but the same legal rate exists all over a given State.

In view of this it could hardly be hoped that the land-bank bonds sold by a bank and based on mortgages in a State where the legal rate was 10 per cent could be sold on the same basis as similar bonds issued by a bank against mortgages in a State where the legal rate of interest was 6 per cent. The problem in some of its phases remains and must remain a State problem owing to our dual system of gov-

ernment. Obviously, any attempt to force by Federal legislation one rate of interest in all the States would be futile. The law of demand and supply will control these rates, and legislation which attempted to enforce a single rate all over the country would result in making it difficult to sell land-bank bonds issued in a State where the current interest rates were higher than those attempted to be enforced through such legislation. On the other hand, once the system of national farm-land banks is in operation in the various States under Federal law and the bonds are recognized as safe investments, the tendency would be to reach not only a common but a lower level of interest rates.

COMPETITIVE BANKING THE SOLUTION.

A full consideration of these and many other phases of the problem convinced the commission that the proper method of meeting these various conditions was to authorize competitive banking and to permit a given number of men in any State to organize a banking institution, with power to act within that State and subject to Federal control—mainly in the way of supervision and an enforcement of regulations—so as to prevent the misuse of the powers granted. Under the bill proposed any number of banks may be organized in a given State. Each bank can extend its operations over the whole or any part of the State. The amount of land-bank bonds which may be issued by the bank is fixed at a sum not to exceed 15 times its capital and surplus, so that the maximum ratio between the capital and surplus on the one hand and the outstanding obligations on the other is maintained. Thereby the percentage of reserve held against these obligations, over and above the real-estate security, is the same for the small bank as for the large bank, thus enabling the small bank to compete with the large bank in the sale of the land-bank bonds issued by it and based on real-estate loans.

INDEPENDENT BANKS SUITED TO AMERICAN EXPERIENCE.

Moreover, the commission became strongly convinced that the individual institution is best suited to the American people, and that the exercise of governmental activities should be largely confined to a rigid supervision, after allowing the widest latitude to individual effort and initiative. Permission to organize separate and distinct institutions with a limitation as to the minimum amount of capital, with a fixed maximum ratio between capital and outstanding land-bank bonds, and with a careful Federal supervision seemed to be better suited to American methods of procedure and to American experience in banking than would a centralized bank which alone should issue and market land-bank bonds based on mortgage loans.

THE SYSTEM PROPOSED PROTECTS THE BORROWER, YET ATTRACTS CAPITAL.

The banks provided for under the bill suggested by the commission will attract the investment of capital, because of the adequate and ample returns which that capital can obtain. On the other hand, the borrower is fully protected, because the amount of interest which the

bank can charge the borrower is limited to 1 per cent more than the bank pays on its land-bank bonds. The administrative charges of the bank are confined to a given maximum. In these and other ways, the bank is prevented from taking advantage of the borrower and must content itself with a reasonable profit on each individual transaction; while, on the other hand, the volume of the transactions permitted is sufficiently large to provide a reasonable return on the money invested in the bank. The borrower, in case of falling interest rates, has the privilege of paying off his loan, so as to take advantage of such reduced interest charges; and the whole system is designed primarily in the interest of the farmer, and secondarily so as to offer a return on the capital invested, which will justify and bring about the establishment of these banks in all parts of our country and the investment of money in these institutions.

COOPERATIVE INSTITUTIONS ALSO AUTHORIZED.

While the commission did not believe that the pure *Landschaft* as originally organized in Germany, or even the modified *Landschaft* as it now exists in that country, was suited to the conditions and requirements of the American people, it yet recognized the value of cooperative effort and the wisdom of permitting cooperative institutions to be organized. In consequence, provision is made in the bill for the organization of banks on a cooperative basis wherever desired. In such cases the general principles of cooperation become applicable to institutions working under this plan, and they cease to be purely private money-making organizations.

GOVERNMENT FINANCIAL AID UNWISE AND UNNECESSARY.

In considering the question of the establishment of institutions under Federal charter, naturally the question of Government aid came under discussion. The commission, from the beginning, has been convinced that not only was Government aid unnecessary, but that it would be unwise. The farmers of the country do not desire any special privileges, and the idea of special privilege is, moreover, antagonistic to the spirit of our institutions. Government subvention is not needed. The security of our farms, the value of which is reported to be over \$40,000,000,000 and yielding an annual product of the gross value approaching \$10,000,000,000, is ample for the creation of a liquid security, which will be readily accepted by investors and which will enable the farmer to use his asset of land as readily as the merchant uses his stock of goods. The farmer needs no special privilege and wants no special privilege, and none should be extended to him.

BUT NO DISCRIMINATION SHOULD BE MADE AGAINST FARM BANKS.

While this is true, the commission believes that it is equally true that there should be no discrimination against the farmer, or against the bond issued on the security of his land. Inasmuch as the basis of our national wealth lies in the farms, the commission has felt that land-bank bonds created under this act should be recognized as being of the same class and as entitled to the same standing as the very highest grade of railroad or industrial bonds.

LAND-BANK BONDS A PROPER INVESTMENT FOR SAVINGS.

The greatest accumulations of money in this country are to-day contained in the mutual savings banks, in the great insurance companies, and in our commercial banks. The commission has, therefore, provided that the land-bank bonds, proposed to be issued by the banks organized under this act, should be placed in the same class with the highest grade of railroad and industrial bonds, and should be made available as legal investments for all classes of savings and for insurance reserves.

It has also recognized that these land-bank bonds, based on farm lands at 50 per cent of their value, are essentially an investment for trust funds and for postal-savings deposits, and has provided for legalizing their use as an investment for trust funds under the charge of the courts, and for the savings of the people at large, as evidenced by the postal savings deposits. The commission has attempted to place these bonds, when issued under Federal supervision by banks created under a Federal act, in the class of the very best investment securities. It has attempted to encourage their acceptance by the general public and by the average investor, through the plan of having them officially recognized (as they should be) as a legal investment for savings, for insurance reserves, for the money of widows and orphans controlled by the courts, and for all those funds around the investment of which the greatest and most rigid safeguards are thrown.

THE CONTROLLING ARGUMENT IN FAVOR OF FEDERAL INCORPORATION.

And it is just here that one of the greatest advantages of Federal incorporation is shown. As heretofore stated, our 48 State sovereignties represent a large number of differing methods of conveyancing, registration, foreclosure, taxation, and exemption. The difficulty of securing uniformity of laws in these respects is obvious. The efforts that have heretofore been made to secure uniformity in laws governing negotiable instruments, in divorce laws, and in other directions, have shown that it is at best a slow process, and that, however wise the proposed legislation may be, it is extremely difficult to arouse the people to the necessity of prompt action.

FEDERAL INCORPORATION WILL HASTEN AND ENCOURAGE UNIFORM STATE LEGISLATION—OTHER ADVANTAGES.

But, through a Federal incorporation of farm-land banks, it would seem that this problem can be greatly simplified. The bill provides that any 10 persons can organize such a bank in a given State. It authorizes the banks so organized to issue land-bank bonds against mortgages in that State. It gives to every such bank organized the same general powers and makes them subject to the same general restrictions. But it goes further and provides that the supervisory officer of the Federal Government may, by general rules, permit the land-bank bonds issued by such banks to be used (1) as security for the deposit of postal savings funds, or (2) as a legal investment for funds accumulated as time deposits in national banking associations, or (3) as a legal investment for trust funds under the

charge of United States courts, or in other ways, provided (1) the laws governing registration, conveyancing, and foreclosure are simplified, or (2) provided exemptions as regards farm mortgages are abolished, or (3) provided such land-bank bonds are made available as legal investments for savings funds, insurance reserves and trust funds in that State. The object of these provisions is to encourage the passage of laws which will bring about uniformity in State methods of conveyancing, registration, foreclosure, taxation and exemptions, and which will induce the States themselves to recognize these land-bank bonds as legal investments for savings-bank funds and trust funds under their control, thereby fixing their status as high-class investment securities.

EXEMPTION FROM TAXATION.

Finally the commission has recognized that, in order that the farmer shall get the benefit of the lowest interest rates, these land-bank bonds, as well as the mortgages or deeds of trust held by the banks as security for the same, must be exempted from taxation. It will be conceded that the tax upon a mortgage ultimately comes out of the borrower, either directly or in the shape of an increased interest rate on the loan. The proposed securities are based on land, and land is the one asset which is always taxed and which can not evade taxation. The farmer must pay his proportion of governmental charges, because his land is always there and the assessor can always reach it. The Federal Government has no control over this tax on land and does not attempt to control it. But it is recognized that a tax on the mortgage created by the farmer upon this land or a tax upon the land-bank bond issued by the bank on the security of such mortgage, must ultimately be paid by the farmer in the shape of increased interest charges. As an essential to the carrying out of any reform which will meet the farmer's requirements, this species of double taxation must be done away with. Consequently, the bill provides for the exemption from taxation not only of the capital stock of the banks to be so organized, but also of all the mortgages and deeds of trust held by the bank and of all the land-bank bonds issued by the bank against such mortgages and deeds of trust. In exempting the capital of the bank from taxation, the bill follows the Federal reserve act, on the theory that the same privilege in this respect should be extended to agricultural banks as to commercial banks. And in exempting from taxation the mortgages and deeds of trust, and the land-bank bonds issued against the same, the commission has recognized that such a tax is simply an additional charge against the farmer who has already paid the direct tax on his land. It will be impossible to secure money for the farmer on the best terms, unless and until such an exemption goes into effect.

The various other considerations which have influenced the commission in submitting this bill will appear in the detailed discussion which follows.

DETAILED REVIEW OF THE BILL.

[See page 53 for text of bill.]

Section 1 creates a short title which is essentially descriptive, and which indicates the principal object of the bill.

Section 2 creates a bureau in the Treasury Department for supervising the operations of these banks. The bureau is to be headed by a commissioner of farm-land banks, whose position and duties largely correspond to those of the Comptroller of the Currency in commercial banking. The commissioner of farm-land banks is under the direction of the Secretary of the Treasury.

Section 3 provides for the appointment, the term of office, and the salary of the commissioner of farm-land banks, which in general correspond with the provisions governing the Comptroller of the Currency. It also provides for the oath to be taken and the bond to be given by the commissioner of farm-land banks.

Section 4 provides for the appointment, the duties, the oath, and bond of a deputy commissioner of farm-land banks.

Section 5 provides for the seal of office.

Section 6 provides for the office supplies, etc., of the new bureau, and for the employment, classification, etc., of necessary clerks.

Section 7 prohibits the commissioner, the deputy commissioner, or any clerk from being interested in any farm-land bank. The wisdom of a prohibition of this kind is apparent, when this bureau is to supervise the operations of such banks.

Section 8 provides for the making by the commissioner of an annual report to Congress, and specifies what such report shall contain.

Section 9 provides for the adoption by the Secretary of the Treasury of the plans, rules, and regulations to govern the bureau of farm-land banks and requires their enforcement by the commissioner.

Section 10 gives to the commissioner the power to issue charters to national farm-land banks and to withdraw or forfeit such charters or liquidate such banks whenever necessary (in accordance with the rules of the bureau) and to exercise supervision and control over, and make examinations of, such banks.

Section 11 authorizes the commissioner, by general rules approved by the Secretary of the Treasury, to specify the conditions under which certain privileges provided in the bill may be extended to farm-land banks. This section gives to the commissioner the power to lay down general rules by compliance with which these privileges may be secured. The privileges themselves are more fully specified in section 34. The object of this method of extending these privileges is to bring about a uniformity in State laws governing conveyancing, registration, and foreclosure and to secure recognition of national land-bank bonds by State institutions as legal investments for savings, trust, and insurance funds. Provision is made by

which the commissioner is given the power to specify when such rules shall go into effect. Section 11 simply confers this power upon the commissioner. Section 34 describes these privileges in detail.

Section 12 provides for the publishing by the commissioner, with the approval of the Secretary of the Treasury, of the amortization tables to be used by the national farm-land banks. Later on in the bill provision is made requiring the banks to adopt and use the amortization principles in all long-term mortgage loans. By this means the loans will be paid off in small periodic installments. For the protection of the farmer, who is naturally not sufficiently conversant with this matter to correct any error in amortization tables which might be in use by the bank, a standard set of amortization tables must be furnished by the commissioner, and this must be used by the banks. The provision is in the interest of both the borrower and of the banks. It assures to the landowner and to the purchaser of the national land-bank bonds a known and regular reduction of the principal amount due under the tables of amortization which have been prepared or approved by the Secretary of the Treasury.

Section 13 provides for the organization of national farm-land banks by any number of natural persons not less than 10. The section generally follows the provision for the organization of national banks under the national banking act.

Section 14 provides in detail for what shall be contained within the organization certificate. Under this section are provided:

First. That the name "national farm-land bank" must be used by those institutions and can not be used by any other institutions. This will enable the purchaser of the national land-bank bonds to know beyond question the character of the security which he is purchasing and to know that the institution issuing these securities is operated under Federal supervision and under the general provisions of this law. This subdivision also provides that, where such national farm-land bank decides to use the cooperative principle, the word "cooperative" should be a part of its title.

There can therefore be no question as to the character of the institution issuing the national land-bank bonds. If cooperative, that fact will be indicated in its title. In the absence of the word "cooperative," it will be evident that the bank is purely an institution for profit. Subject to these regulations, the institution is allowed to select a descriptive title to prefix the words "national farm-land bank" or "national farm-land bank, cooperative." A provision is made for the designation of each bank by an official number, as in the case of national banking associations. It should be noted that the title of these national farm-land banks indicates correctly the scope of their activities, as will appear later in the bill. Their loans are limited to farmers and they are not permitted to lend on city property.

Under this section the distinction is drawn between the ordinary farm-land bank and the cooperative institution. In the cooperative institutions, the owning of shares by an individual stockholder is limited to 10 per cent of the share capital; the voting power is based on membership and not on the number of shares, a vote being given to each stockholder irrespective of his ownership of stock; and the distribution of profits is made on the cooperative principle instead of on the basis of stock ownership. This provides that stockholders may

first receive a return on their investment equal to the general prevailing rate of interest in that community, but not to exceed the legal rate in that State. The remainder of the net earnings is distributed among the patrons of that institution (that is to say, among the borrowers) in proportion to their borrowings. This provision is qualified, to the extent that shareholders who have been borrowers may receive dividends on their borrowings at a rate twice as great as paid to nonshare-owning patrons. This provision is not mandatory, but lies in the discretion of the share-owning patrons or borrowers. Its purpose is to encourage borrowers to become shareholders, and particularly to encourage borrowers to invest the dividends, so paid to them as such borrowers, in shares of the company. For that reason, as well as to make it possible to widen the distribution of its stock, the shares of cooperative banks may be of the par value of \$25 each, instead of \$100 each.

The distinction between the cooperative banks and the regular banks is outlined in this section, and it is provided that in other respects the two banks shall be governed by the same general laws. Outside of the limited stock ownership and the voting by members instead of according to stock ownership, the principal feature of the cooperative bank is the distribution of its profits. The plan here outlined conforms to the plan very generally adopted throughout the world in cooperative stores, dairying associations and other similar enterprises. The parties who furnish the share capital receive first a fair rate on their investment. The balance of the profits goes as dividends to the patrons—not to the stockholders. This means that the patron thereby in effect gets a reduction on his interest rate; a part of the interest paid by him is returned at the end of the year in the shape of a dividend. The stockholder after getting a fair return for his money has no further interest in the profits as a stockholder; but the stockholder as a patron is entitled to a share of the additional profits in proportion to his borrowings. But the shareholder may get twice as much dividend on his borrowings as the nonshareholder gets. Thereby the nonshareholder is encouraged to become a shareholder.

Second. That the State in which the operations of the bank shall be carried on shall be designated and the place in the State where the principal office is to be located shall be shown. As explained in the preceding general discussion of the bill, the loans of a national farm-land bank are limited to one State; hence the necessity for the designation by the bank, in its organization certificate, of the State in which it will be operated. Provision is also made for changing the principal office to some other point within the State when desired.

Third. That the amount of capital stock and its division into shares shall be specified, with a provision that the minimum capital shall be \$10,000 and with a provision for its increase.

The minimum of \$10,000 was fixed by the commission after very careful deliberation. It was felt that the minimum of \$25,000 now existing in the case of national banking associations was too high, for the reason that many farming communities which would desire to take out charters under this act would be unable to provide this amount of capital. On the other hand, the commission recognized the necessity of careful and adequate supervision by the Government

and did not wish to create institutions so small that the burden and cost of examination and supervision would be proportionately too great. The amount of \$10,000 was finally arrived at as the wise minimum under the circumstances.

Fourth. That the names, residences, and number of shares of stockholders shall be shown, as in the case of national banking associations, so that the double liability hereinafter provided may be enforced when necessary.

Fifth. That the certificate is made for the purpose of organizing a national farm-land bank.

Section 15 provides for the method of acknowledging and preserving the organization certificate.

Section 16 defines the general powers of national farm-land banks. This includes the usual and ordinary powers of similar corporations. The period of duration of the bank is fixed at 50 years, unless sooner dissolved. The charters are made subject to change, amendment, or repeal under general laws enacted by Congress, provided that the rights of creditors are not thereby affected. Provision is made for their control by a board of not less than five nor more than nine directors. A broad latitude in the by-laws of each bank is permitted.

Under "seventh" of this section the necessary incidental powers are given to such farm-land banks, with the provision that certain specific powers shall appertain to each such bank. In these specific powers are outlined the distinguishing characteristics of farm-land banks as distinguished from commercial banks. Among these powers are:

(a) The power to accept deposits only to the extent of 50 per cent of their capital and surplus. The farm-land banks are not intended to do a commercial banking business. The great volume of commercial banking business is based on the deposits in the commercial banks. Deposits are not a proper basis for mortgage loans, because deposits, being payable within a short time or on demand, are not suitable for investment in bonds maturing from 5 to 35 years from their date.

On the other hand, in making farm loans on mortgages, these banks will undoubtedly frequently have to hold as a deposit the money so loaned. Moreover, in carrying on a business incidental to farm-land banking, they must of necessity at times have some deposits. Consequently they are permitted to receive deposits to a limited extent, namely, to the extent of one-half of their capital and surplus. But these limitations effectively remove them from competition with commercial banks and are in accord with the general rules governing land banks in European countries.

In considering this question of limitations on deposits in farm-land banks the commission considered very carefully the question as to whether it should be a limitation on the *amount* of deposits or simply a limitation on the *character* of deposits. It was urged that time deposits running for one year or longer could be safely received by the farm-land banks and used for investment in national land-bank bonds of the institution. On the other hand, it was urged that a limitation of the amount of deposits might work a great hardship in the actual operation of the banks; but the commission, after a full consideration of this question, decided that the limitation should be upon

the *amount* and that the example of loan banks in European countries could safely be followed in this respect. The only exception made was a provision later on in the bill that this limitation should not apply to the deposit of postal savings funds, which, taken as a whole, are different from ordinary deposits. They are more constant and less susceptible to fluctuation, because the credit of the Government is specifically pledged for their repayment; but the limitation on the amount of deposits, except as stated, absolutely removes farm-land banks from all competition with commercial banks, and also removes the danger that might threaten such farm-land banks if a large volume of deposits has been invested in long-term bonds and were suddenly called for payment.

(b) The second specific power of the farm-land banks is the power to make loans upon farm lands anywhere within the State. This power is accompanied by certain conditions which must be complied with. These conditions constitute the basic security of the national land-bank bonds. Each provision has received the most careful consideration and has been studied in the light of European experience as well as of American conditions. Each of these provisions or conditions is believed to represent a wise decision in the interest of the borrower, of the bank, and of the investor.

These provisions are:

(1) That such loans be made for not more than 35 years. In some of the European countries the loans run for a longer term, sometimes as long as 75 years. It is fundamental that the longer the loan at a given rate of interest, the smaller the amortization payment. On the other hand, it was ascertained that in some of the countries where these very long time loans prevail the unwisdom of the course was recognized and efforts were being made to provide for the repayment of the loans within a generation, by attaching to the loans life insurance policies payable on the death of the borrower. The wisdom of extending a large volume of farm loans as a burden upon succeeding generations is at least questionable. The commissioners believed that the American people would not approve of the creation of a large body of farm loans running over two or three generations before maturity. They, moreover, were convinced that the reduction in the amount of amortization payments, in the case of a very long time loan was not sufficiently great to justify the burdening of future generations with such a debt, and that the American people could easily meet their farm mortgages within a period not greater than 35 years on the amortization principle, and that the earnings of the farmers would justify this shorter term. An examination of amortization tables seemed conclusive that the term of 35 years gives ample time for the repayment of these loans at a rate of amortization which the American farmer can readily meet.

(2) That all farm-mortgage loans shall be on *first* mortgages and that second and third mortgage loans are prohibited. This serves to insure to the investor that the national land-bank bond purchased by him is secured by an absolute first mortgage on farm lands. With this assurance the national land-bank bonds will sell on better terms, with resultant benefit to the borrowing farmer.

(3) Almost any institution can be used for purposes not intended by those who organize it. Every effort, however, should be made to restrict abuses wherever possible. In order that the institutions

provided in the bill may not be used successfully by those whose principal purpose is to speculate, certain limitations have been made as to the use of the loans. No farmer interested in the upbuilding of agriculture and the extension of production will desire to negotiate a loan except to complete the purchase price of the agricultural lands mortgaged, or to improve and equip his farm in order to extend agricultural production, or in order to refund outstanding mortgages.

(4) That the loans shall not exceed 50 per cent of the value of improved farm lands or 40 per cent of other lands, the value to be determined by an appraisal. This proportion was arrived at after a careful study of the proportions used in European countries and of American conditions. Moreover, the proportions used follow those in reference to loans on farm lands provided in the Federal reserve act.

(5) That every such farm-mortgage loan shall contain a mandatory provision for the repayment of such loan by amortization. The investor in the national land-bank bond will know that every mortgage held by the bank of issue contains a mandatory provision for amortization payments, so that when the national land-bank bond held by him falls due the bank will have received in cash from the farmer the amount of the mortgage held by the bank to secure such national land-bank bond. The loan to the farmer must be for not less than five years, because the amortization principle can not be very well applied to a loan for a shorter period.

It should be noted that the farm-land banks are authorized elsewhere in the bill to lend money on farm mortgages running for less than five years; but they can not issue national land-bank bonds against mortgages running less than five years, because such mortgages run for such a short term that they do not lend themselves to the amortization plan. The whole theory of the bill is that no national land-bank bond can be issued by any farm-land bank unless the mortgages securing such national land-bank bonds contain an amortization provision, which of necessity pays off the mortgage by its maturity, and thus provides the bank with the money to repurchase the national land-bank bond issued against it.

(6) That the farmer or borrower may pay off his loan at any interest period after five years. The loan can not be paid off within less than five years, except at the option of the bank. The reason is that the banks' profits or administration charges are limited to so small an annual amount that it must continue for at least five years to enable the bank to handle the loan. During that period, if the farmer wishes to pay the loan, the bank may or may not consent. After five years the farmer has the absolute right to pay off his loan at any interest period. Consequently, if interest rates should fall, the farmer could pay off his mortgage carrying a high interest rate and borrow again on more advantageous terms. This is a most important privilege to the farmer and should make him feel that he runs no risk in creating a mortgage on his farm for a long term at existing interest rates. If the interest rates thereafter rise the bank can not make him pay an increased rate, but the agreed rate holds until the mortgage falls due, and in the meantime the amortization payments pay off the mortgage. If, on the other hand, the interest rates should fall, then after five years he can pay off the existing mortgage and create a new mortgage at the lower rates.

(c) The third specific power of the farm-land bank is the power to issue, sell, and trade in its own collateral trust bonds, which are designated as national land-bank bonds. These national land-bank bonds are in reality collateral trust bonds, in that they are the bonds of the farm-land bank, secured by the deposit, in trust, as collateral to the same, of first mortgage or first deeds of trust on farm lands.

The conditions under which the national farm-land bank can issue national land-bank bonds are specified under six heads and are carefully worked out so as to protect the farmer, the bank, and the investor.

They are as follows:

(1) That the rate of interest paid by the farmer to the bank shall not exceed the rate of interest paid by the bank to the investor by more than 1 per cent, and this 1 per cent must include all charges of administration or expenses of the bank.

This provision is one of the principal protections to the farmer and is the greatest guaranty to him that he will secure the most advantageous interest rates. The farmer who wishes to borrow a thousand dollars from the bank on the security of his land finds that the bank is able to sell its national land-bank bonds, bearing 4 per cent, at par. The bank is willing to lend him a thousand dollars on the security of his farm. The bank is prohibited from charging him on such loan more than 5 per cent, because the rate of interest paid by the farmer must not exceed the rate paid by the bank to the investor by more than 1 per cent. Naturally the bank will sell its national land-bank bonds at the lowest interest rate possible. The farmer gets the benefit of this, because whatever interest rate is paid by the bank, the farmer can only be charged a rate 1 per cent higher, and this 1 per cent must cover all administration charges of the bank.

(2) That all national land-bank bonds must be payable on a date specified. The American method of having bonds payable at a specified time is so thoroughly grounded in the American people that it was thought wise to require that all bonds be payable at a specified time. It is true that the time of liquidation of the bond would be determined by the amortization payment on the mortgage securing the bond. In Europe it frequently happens that land-bank bonds have no definite due date; but the American public is not conversant with the practice of issuing bonds with no definite maturity, and consequently this provision seems wise. By making the bonds subject to call at par, provision is made enabling the bank to retire its land-bank bonds as the mortgages are paid off by amortization or otherwise.

(3) That national land-bank bonds shall always be protected by the deposit of first mortgage or first deed of trust farm loans of an equal amount in face value, maturing not less than five years from date. In times when interest rates are low and mortgages theretofore taken bear a higher rate, the mortgage might be worth more than par. Conversely, when interest is high a mortgage theretofore taken (if offered for sale) might sell at less than par. In the absence of a provision such as this there might be a fluctuation in the security deposited for the land-bank bonds; but under the amortization plan, the amortization payments retire the mortgage automatically without reference to the interest rate. By requiring the mortgage deposits to be of the same par value as the national land-bank bonds issued

against them, the payment of both principal and interest of the land-bank bonds is assured.

(4) That the amortization payments as made must be credited on the mortgages, and the land-bank bonds issued against such mortgages must be retired to that extent. Here is involved the difference between an amortization payment and a sinking fund. The amortization when made is credited on the instrument itself, thereby reducing the face of the debt. The sinking fund is kept separate and invested. If the investment of the sinking fund is wise, it may pay off the debt even earlier than the amortization payment would do; but if unwise, the result may be the opposite. The amortization payment, being credited on the mortgage itself, there can be no uncertainty or question as to the amount by which the debt is reduced. When they are credited as each payment falls due, the debt must be wiped out at its maturity.

This section also provides that the land-bank bonds must be retired as the amortization payments are made, and thereby the amount of national land-bank bonds outstanding is always kept at a parity with the mortgages held as security for them.

(5) That the mortgages held as security for national land-bank bonds shall be in the joint possession of the bank and of the special official known as the Federal fiduciary agent and that the register of such mortgages shall be kept by the bank, but the entries therein can only be made with the approval of the Federal fiduciary agent. This provision is essential and throws the greatest safeguard around the operations of the bank. A specific Government agent is given joint possession with the bank of the mortgages securing the national land-bank bonds and is given control over the registry of such mortgages. The necessity and wisdom of this provision are obvious, as this insures the most effective Government supervision over the operations of the farm-land banks and particularly of the securities on which the national land-bank bonds are based.

(6) That no national land-bank bond shall be issued against any mortgage running for less than five years. The reasons for this have been fully explained above.

(d) The fourth specific power of the national farm-land bank is the power to use its capital, surplus, and deposits as a revolving fund for the temporary purchase and holding of first-mortgage loans. By this means the bank is enabled to make the loans to the farmer and secure the mortgage and thereafter to issue its national land-bank bonds against the same. This provision gives the bank the working capital with which to conduct its operations. Moreover, the bank is authorized to use this same fund to buy in temporarily its national land-bank bonds, so as to maintain the price of the same.

It is obvious that these national land-bank bonds will as a rule be held as permanent investments. On the other hand, the investor may from time to time wish to dispose of one or more of such bonds. It will be essential that he be enabled to sell the same without difficulty if the price is to be maintained. Consequently the bank is allowed to purchase temporarily bonds offered for sale and subsequently to sell them again, thereby maintaining the market. This is a most important provision, for unless the market is maintained the bonds will undoubtedly depreciate in times of depression, and every market depreciation would result in injuring the security and in making investors timid in regard to the same.

The capital, surplus, and deposits can also be loaned on short-term first mortgages not exceeding five years. The object of this is to enable the bank to take care of short-term mortgage credit. It is assumed that the great volume of such short-term mortgages, running for five years or less, would be disposed of by the bank to local investors, but the very fact that the bank is authorized to make such short-term loans will tend to encourage their being taken up by local investors; and no system of farm-land banks would be complete which did not make provision for taking care of these short-term loans as well as of the long-term mortgage loans containing the amortization feature. The bank is prohibited from permanently investing more than one-half of its capital and surplus in such short-term mortgage loans or in its national land-bank bonds, so as to prevent the tying up of all its resources in this way. It can, however, invest the balance of its capital and surplus in interest-bearing securities, such as Government bonds, its own State bonds, and in any other security which may be approved by the commissioner of farm-land banks.

(e) The fifth specific power of the farm-land bank embraces the power to do an ordinary banking business to accommodate the ordinary banking requirements of the community to a limited extent; that is, as far as may be required by the limited volume of deposits which it is authorized to keep, namely, deposits to the extent of 50 per cent of its capital and surplus.

Each bank is also authorized to deal in national land-bank bonds of other farm-land banks with its deposits. This will enable the bank with a large capital, located in a section where money is plentiful, to purchase and trade in the national land-bank bonds issued by banks in less favored sections, and thereby to maintain the market for its securities, and to use the funds available in one section of the country to meet the needs in other sections.

The right to use its deposits in purchasing commercial and other short-term paper, and to rediscount the same with other banks, is a necessary incident to the power to take deposits to the limited extent provided.

The commission believes that to a large extent future development of rural banking will proceed along lines of cooperation. We have therefore extended the powers of the proposed national farm-land banks, cooperative, so as to permit these institutions to do a full banking business, under the laws of the United States, exclusively for their own membership. This provision, were it enacted into law, will not confer the advantages of an unlimited federal charter but it will give great encouragement and opportunity to the development of cooperative business organization among farmers. It is presented by the commission as being the smallest advance which should be granted by the Federal Government at this moment to this new movement in the rural life of our Nation.

SPECIFIC LIMITATIONS UPON FARM-LAND BANKS.

There are contained in this bill four specific limitations imposed upon every national farm-land bank. These are more particularly as follows:

(a) The amount of national land-bank bonds that may be issued and outstanding at any one time must not exceed *fifteen* times the capital and accumulated surplus of the bank.

The whole theory of the farm-land bank is based upon a use of its credit rather than of its cash resources. The commercial bank does its business on the basis of its cash resources or of its deposits. It does not use its credit except to a very limited extent. As an illustration, no national banking association is allowed to execute a pure contract of guaranty. But the farm-land bank primarily uses its credit rather than its cash resources, and consequently some limitation must be put upon this use of its credit.

In Europe some of the land banks have been allowed to issue collateral trust bonds to the extent of twenty times their capital and surplus; but the general trend is toward a reduction, and the best thought on the subject seems to indicate that fifteen times the capital and surplus will represent a fair amount of collateral trust bonds to be issued by the bank. This means that against the national land-bank bonds issued by the bank there are deposited in the joint custody of the bank and of the Federal fiduciary agent first mortgages on farm lands at not to exceed 50 per cent of their appraised value to an amount equal to the face value of the national land-bank bonds issued, and that the farm-land bank, in addition, holds in the shape of capital or surplus \$1 in cash or in quick assets for every \$15 of national land-bank bonds outstanding.

(b) The charges of administration imposed upon the borrower shall not exceed an annual charge of 1 per cent upon the amount unpaid on the loan. This limitation is in the interest of the farmer as a borrower. It fixes the charge which can be made by the bank for handling the loan at not exceeding 1 per cent of the loan. This 1 per cent is not 1 per cent of the original loan, but 1 per cent of the amount unpaid on the loan. As heretofore explained, this 1 per cent represents the excess of interest charged the farmer over the rate of interest put by the bank on its national land-bank bonds. It must cover the entire profits of the bank in the transaction, though, of course, the amortization payment for the retirement of the principal of the debt is in addition to this amount.

(c) The periodic payments by the borrower must be sufficient in all cases to pay the interest charge upon the loan, to cover the administration charge of the bank, and to include an amortization payment sufficient to retire and pay off the amount of the principal borrowed at its maturity. If a farm-land bank can sell its 4 per cent national land-bank bonds at par, then the farmer wishing to borrow from the bank \$1,000 can be charged by the bank the rate paid by it, namely, 4 per cent plus 1 per cent to cover charges of administration and the profits of the bank plus an amount which will be sufficient to retire the loan at maturity. If the loan ran for 30 years, for illustration, the payment of 1 per cent per year or less would be sufficient to pay off the principal within that time, and in the case suggested the farmer by paying \$30 every 6 months would be able to pay the interest on the loan and wipe out the loan by the end of the 30 years. Every loan must provide for these three specific items—namely, interest, administration charges, and amortization payments.

(d) The wisdom of the provision preventing the loan by a national farm-land bank upon its own stock or the stock of any other farm-land bank is evident. Such loans have been proven unwise in commercial banks. The necessity for prohibiting them in farm-land banking is even greater. Likewise, the limitation on the amount that can be loaned to any one individual follows the general provision con-

tained in the national banking act, except that the limitation is placed at 20 per cent of the capital and surplus with farm-land banks rather than 10 per cent, as with the national banking associations. The reason for this is sufficiently obvious from the different kinds of business carried on by the two institutions and from the necessity of permitting a bank with \$10,000 of capital to make a loan on real estate of at least \$2,000.

Eighth. This section is practically identical with that contained in the national banking act.

HOLDINGS ON REAL ESTATE.

Section 17: This section is practically identical with the provisions contained in the national banking act, and it is particularly desirable that some such provision preventing large real-estate ownership by a bank whose principal business is lending on real estate should be enforced.

EXEMPTION FROM TAXATION.

Section 18: In so far as this section refers to the exemption of capital stock and income, it is similar to the provision contained in the Federal reserve act. The necessity for exempting the mortgages and deeds of trust held by the bank as security for its national land-bank bonds and for exempting from taxation these national land-bank bonds themselves has been fully dealt with in the general statement above. Taxes upon mortgages, deeds of trust, and other evidences of indebtedness secured on real estate mean simply the payment of an increased rate of interest by the borrower, who already is taxed upon his land. It can not be expected that loans for farmers can be obtained on advantageous terms unless and until these evidences of debt are exempted from taxation, for the amount of the tax will unquestionably be evidenced by an increased interest rate, and the farmer who has paid his taxes on his farm must ultimately bear this additional burden unless the collateral is exempt.

FEDERAL FIDUCIARY AGENT.

Section 19: As heretofore stated, the Federal fiduciary agent provided for in this act constitutes one of the most important methods of Government supervision and control of farm-land banks. This agent is the direct representative of the bureau of farm-land banks. His duties are, first, to certify to each national land-bank bond issued. In this respect he takes the place of the trustee under the railroad mortgage, who certifies to the bonds issued by the railroad, and his signature forms a guaranty to the investors that the bonds are what they purport to be. Second, he has joint possession and control with the bank of the mortgages and deeds of trust deposited to secure the national land-bank bond. By this means the Government assures to the investor that the mortgages held as security for the land-bank bond bought by him can not be destroyed or made away with, because they are in the possession and control of a Government representative. Holding such joint possession and control, no change in the security for the national land-bank bond can be made without his consent in writing. Third, he has supervisory control of the mortgage ledger, in which the statements of the mortgages

and deeds of trust are contained. This is necessarily an incidental power to his joint possession and control of the mortgages themselves, and is in the interest both of the borrower and the investor, as well as of the stockholder of the bank, whose stock would be liable in case any loss were sustained by the destruction of the mortgages held for the national land-bank bonds.

It is provided that the Federal fiduciary agent shall execute a bond and that his salary and expenses shall be paid by the bank under proper regulations.

CAPITAL STOCK.

Section 20: The shares are placed at \$100 each except in the case of cooperative institutions, in which case they may be \$25 each. Otherwise this section corresponds to the national banking act.

Sections 21, 22, 23, 24, and 25 are exactly similar to corresponding sections in the national banking act and need no special explanation.

Section 26 follows the national banking act, except that the stock ownership of the directorate is placed at 5 shares instead of 10 shares.

Sections 27, 28, 29, and 30 are similar to corresponding sections in the national banking act.

Sections 31 and 32 are exactly similar to corresponding sections in the national banking act, and provide for double liability of stockholders, thereby giving to the national land-bank bonds the security, not only of the mortgages or deeds of trust specifically deposited to secure them, but also the security of the capital stock of the bank, and in addition the double liability of the stockholders.

Section 33 substantially follows the provisions of the corresponding section of the national banking act.

PRIVILEGES GRANTED TO NATIONAL FARM-LAND BANKS.

Section 34: To the consideration of this section the commission has devoted a very great deal of time and thought.

The commission was very strongly impressed at the beginning of its deliberations with the view that in many particulars the problem of farm-land banking was a State problem, and it still believes that State legislation can be advantageously had along the line indicated in the bill herewith submitted. The difficulty, however, was, as stated above, the varying conditions and laws existing in the 48 States of the Union, and the almost impossibility of securing uniform legislation in the various States and of securing legislation of any character in many of the States. In consequence, the commission was impressed with the necessity of authorizing the incorporation of farm-land banks under national law, if any improvement was to be secured for the farmer within a reasonable time.

On the other hand, the commission has recognized that the States come in direct touch with the land and control taxation, methods of registration and conveyancing, exemptions, methods of foreclosure, etc., in regard to the land. In consequence, any act looking toward the incorporation of farm-land banks under national charter must be confronted with the difficulty of affecting in any way the State laws governing these matters. Consequently, it has seemed to the commission that it was very important that parties proposing to organize a national farm-land bank should understand and be assured in the beginning as to just what privileges would be accorded by the

Federal Government to such national incorporations. Moreover, the commission has recognized that the privileges which the National Government might and should offer to such nationally incorporated farm-land banks could advantageously be used as a means of calling to the attention of the residents of the various States the wisdom and necessity of improving methods of conveyancing and foreclosure, of abolishing taxation on mortgages, and of doing away with exemptions, which make it difficult and even impossible for the farmer to obtain loans, which he could readily secure if such exemptions did not exist or could be waived.

Moreover, the commission, as above stated, recognized the necessity for impressing these national land-bank bonds with the stamp of approval as an investment for savings and trust funds, so that they would immediately be accepted along with, and as being in the class with, the very best species of railroad and industrial bonds.

In consequence, in section 34 the bill provides that the national land-bank bonds can be received—

First. As security for the deposit of postal savings funds in farm-land banks and in other banks. It is claimed by the commission that national land-bank bonds issued under this act would be absolutely secure and would constitute an ideal security for postal savings deposits. Thereby the postal savings deposits, accumulated to a large extent in urban centers, would be available for the development of rural communities. Such a provision at once places national land-bank bonds in the highest class, because the present postal savings law requires that bonds deposited to secure postal savings deposits must be bonds supported by the taxing power.

Second. These national land-bank bonds are made a legal investment for funds accumulated in the savings-banks in the District of Columbia as well as time deposits in national banks. The restrictions surrounding the investment of funds in savings banks in this country have been so rigid and, as a rule, so carefully observed that to state the fact that a bond is accepted as a legal investment by savings banks impresses it at once as the very highest grade of security. These bonds, being in effect first-mortgage bonds on real estate, are preeminently suited for such investments, and in this way the savings funds of the cities will be made available for the development of the country.

Third. These national land-bank bonds are made a legal investment for trust funds and estates under charge of the United States courts.

Fourth. They are made available as security for loans from national banking associations either to farm-land banks or to individuals under the provisions of section 24 of the Federal reserve act. Under that section national banking associations are allowed to lend not over 25 per cent of their capital stock and surplus or to one-third of its time deposits on the security of farm lands at not exceeding 50 per cent of the value of the farm land for not exceeding five years. In many sections this privilege extended to the national banks will not be exercised on account of the fact that the national bank frequently is situated in a city, remote from the country districts. But if, in place of making the loan directly on the farm land, the national bank is allowed to lend the money to the farm-land bank or the individual on the security of national land-bank bonds, then it would seem that a great part of this available amount in the national banks could be reached by the farmers to meet their needs.

The foregoing four enumerated privileges are suggested by the commission as being properly applicable to national land-bank bonds.

In addition, however, the commission has believed that it would be wise to vest in the commissioner of farm-land banks the power to make general rules, with the approval of the Secretary of the Treasury, extending these privileges, or certain of them, only to farm-land banks in States which pass laws or regulations looking toward uniformity in several essential particulars, and looking toward a simplification of laws regarding land titles. That is to say, the commission believes that the commissioner of farm-land banks should be given the power to extend the privileges, or some of them, by general rules only to banks in those States which have done away with exemptions as regards farm-land loans, or to banks in those States which have simplified methods of registration, conveyance, and foreclosure, or to banks in those States which have made national land-bank bonds available as a legal investment for the funds of savings banks operating in that State, or trust funds under the control of courts of the State, or as a legal investment for reserves of insurance companies operating under the laws of that State.

It is believed that with this discretion vested in the commissioner of farm-land banks, exercised only with the approval of the Secretary of the Treasury, general rules can be promulgated from time to time which will be largely instrumental in securing uniformity of laws in the various States and in assuring the acceptance of these national land-bank bonds as a legal investment for the great accumulations of savings now existing in banks and in the reserves of the great insurance companies. If laws simplifying the registration of titles or conveyance of lands and the foreclosure of mortgages, abolishing taxation of mortgages, can be brought about in the various States, and if the national land-bank bonds can become a recognized and authorized investment for the funds accumulated in State savings banks, in the reserves of insurance companies, in the savings-bank departments of national banks, and in the postal savings banks, then the national land-bank bond will become a recognized security of the highest class and the farmer will have obtained access to the greatest accumulations of capital in the country, just as the big corporation or large merchant now has access to these or similar funds.

Sections 35 and 36, touching examinations of banks and reports of their condition, are substantially the same as corresponding provisions in the national banking act.

Section 37, regarding dividends, is substantially similar in its first part to the national banking act, except that dividends are prohibited, not only when they impair the capital, but when they reduce the capital and surplus to less than one-fifteenth of the outstanding national land-bank bonds of the bank. Moreover, in the case of cooperative banks a special arrangement for the distribution of earnings is made which has been fully treated above in discussing section 14, subdivision (1).

Section 38 is substantially similar to the corresponding provisions of the national banking act.

Section 39 provides for the appointment of an appraisement committee, and requires the committee, composed of three directors, to appraise or cause to be appraised all farm land upon which loans are to be made, which appraisement shall be in writing, signed by a

majority of the committee. The appraisement shall contain a description of the property, the value at which it is appraised, the value at which it is assessed, and other pertinent information; and no loan on any farm land can be made unless and until such appraisement has been made in writing and filed. It is hardly necessary to discuss the wisdom of this provision in handling real-estate loans.

Section 40 provides that all national farm-land banks shall, upon the request of the postal savings trustees, receive deposits of postal savings funds to the extent of one-half of their capital and surplus and pay interest thereon.

The question has been raised before this commission as to whether the powers of the Federal Government embrace the power to establish a system of farm-land banks. After some investigation, the commission is impressed with the view that the Government has this power, but it is strongly impressed with the view that no possible question can be raised as to the Government's right to create banks which shall act as depositories for funds controlled by it. Moreover, in case other banks should refuse to receive the postal savings deposits and pay the interest required thereon, then the Government could force the farm-land banks to receive such deposits, paying therefor the interest required, and relieving the Government of any possible danger of having to pay the interest charges on these deposits in the future when it might not itself be a borrower and might have no need for these large accumulations.

Section 41 provides that the limitation on the amount of deposits to be received by a farm-land bank (which prevents it from receiving deposits in excess of 50 per cent of its capital and surplus) shall not apply to postal savings deposits or other governmental deposits, or to State deposits. The farm-land banks can be *required* to take postal savings deposits to the extent of half their capital and surplus, but they are *authorized* to take postal savings or governmental deposits and State deposits to an unlimited extent.

The limitation on the amount of deposits which the farm-land bank should receive from individuals has been heretofore explained, and the reason for it is obvious. Farm-land banks should not compete with the commercial banks in getting deposits. They should not be allowed to receive an unlimited amount of ordinary deposits, because a sudden demand for such deposits would naturally embarrass an institution whose principal loans run over a period of years.

But the deposit of postal-savings funds is entirely different. While there are small fluctuations in the volume of such deposits, it can be safely predicted that the volume will continue to increase when the credit of the Government is pledged to their repayment. These postal-savings funds are held by the Government in trust and have to be invested in some way or else deposited with some institution which can provide the interest.

Secondly, it would seem peculiarly fitting that these deposits should be placed with the farm-land banks, to meet the needs of which they are peculiarly adapted. Likewise with other Government deposits. The Government, controlling and supervising the farm-land banks, should be allowed to place with such banks any deposits that it may wish to so place. It is reasonable to presume that, if the National Government will place its funds with farm-land banks, the State governments will be willing to similarly place their time deposits, or some

of them, with such banks. It is provided in this section that the postal-savings deposits so placed with the bank, except the 5 per cent reserve required under the postal-savings act, may be invested in farm loans and may be secured by the deposit of national land-bank bonds, and that the funds deposited by a State may be invested as provided by the laws of the State. Provisions for keeping proper reserves are inserted, following largely the provisions of the Federal reserve act.

Section 42: This section provides that, in case buildings form any part of the security of mortgage loans, they shall be insured, and that the insurance policies shall be properly assigned and provision made for the payment of the premiums. As a general measure of protection, it is provided that, in appraising property for loans, buildings and destructible property shall not be valued at more than 20 per cent of the total appraisement. The reason for this is that farm-land loans are, as herein outlined, loans for long terms, and should be based on indestructible property or the land. On the other hand, the land itself is frequently made more valuable by the presence of the buildings necessary to its use, and such buildings should receive some consideration. By limiting the value of the buildings to 20 per cent of the appraised value, and by limiting the loans to 50 per cent of the appraised value, it will mean that the appraised value of the land alone will always exceed the face of the mortgage, because the appraised value of the land itself must be 80 per cent of the total appraised value, and the loan must not exceed 50 per cent of the total appraised value.

Section 43 prohibits branch banks, but authorizes the maintenance of loan agencies throughout the State in which the bank is operated. The necessity and propriety of such loan agencies throughout the State, in order to enable the bank to lend its funds, are apparent.

Section 44 provides for the maintenance by a national farm-land bank, with the consent of the commissioner of farm-land banks, of sales agencies either within or without the State, to sell its national land-bank bonds. The necessity for this is apparent.

Section 45 provides how the rate of interest to be charged the farmer is to be arrived at. That is to say, the farmer is to be charged an amount equal to the rate of interest to be borne by the national land-bank bonds, plus the administration charge of the bank (which can not exceed 1 per cent of the amount unpaid), plus the amortization payment. This has been fully explained above, and it is provided that the amount to be so paid periodically shall be set out in every mortgage, and shall not be changed during the term of the mortgage. This provision is in the interest of the borrower and of the investor.

Section 46 provides that a borrower may pay off his indebtedness by presenting to the bank its national land-bank bonds of the same series as those issued against his mortgage.

The farmer who has borrowed \$1,000 on mortgage from a national farm-land bank has delivered his mortgage to the bank, and the bank has issued a series of perhaps \$100,000 of national land-bank bonds against his mortgage and other mortgages. These national land-bank bonds have been sold to the general public. Thereafter the farmer comes into possession of certain money, and he finds an opportunity to buy some of the national land-bank bonds of this series at 98; he

purchases these bonds at 98 and presents them to the bank in settlement of his indebtedness at par. Inasmuch as the amount of mortgages held by the bank is of the par value of the amount of national land-bank bonds outstanding, the bank can lose nothing by this transaction, because it receives \$1,000 par value of its own land-bank bonds of the same series in payment of a mortgage of \$1,000, held as security for those bonds. Upon receiving its national land-bank bonds, it thereupon cancels the same, and likewise cancels and delivers up the \$1,000 mortgage of the farmer. This provision encourages the farmer to buy the national land-bank bonds of that bank when they fall below par, because thereby he can pay off his mortgage at less than its face. Such a provision will tend to maintain the market for the national land-bank bonds. Likewise the bank itself can buy its bonds in the market, cancel the same, and thereby release a proportionate part of the mortgages securing such issue. This likewise tends to encourage the bank to invest its surplus funds in its own national land-bank bonds, and tends to maintain the market. But all of these cancellations of mortgages securing land-bank bonds must be made with the consent of the Federal fiduciary agent. While the bank can buy its bonds on the market on the best terms possible, it can not *call* national land-bank bonds for payment at less than par.

Section 47 provides that the bank shall immediately discharge the lien of a mortgage whenever payment of the same is made. The propriety of this requirement is obvious.

Section 48 gives to the commissioner of farm-land banks the power to establish general rules and regulations prescribing the methods of carrying out the necessary incidents of the business of farm-land banking. It gives him general power to supervise all national farm-land banks, and to prescribe rules and regulations for their conduct where the same are not provided under the act.

Section 49 similarly gives him general powers regarding the organization and operation of national farm-land banks.

Section 50 follows the general provisions of the similar provisions in the Federal reserve act, covering violations of law.

Section 51 repeals all acts or parts of acts inconsistent with this act.

DUNCAN U. FLETCHER, *Chairman.*

THOMAS P. GORE.

RALPH W. MOSS, *Vice Chairman.*

HARVIE JORDAN.

JOHN LEE COULTER, *Secretary.*

KENYON L. BUTTERFIELD.

CLARENCE J. OWENS.

APPENDIX.

SUGGESTED LEGISLATION.

SUGGESTED LEGISLATION.

[See pages 27 and 34 for review of bill.]

A BILL To provide for the establishment, operation, and supervision of a national farm-land bank system in the United States of America, for the creation of depositories for postal savings and other public funds, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
That the short title of this act shall be "National farm-land bank act."

Short title of this act.

SEC. 2. That there shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the creation and supervision of farm-land banks, the chief officer of which bureau shall be known as the commissioner of farm-land banks, and shall perform his duties under the general direction of the Secretary of the Treasury.

Bureau of farm-land banks.

Commissioner.

SEC. 3. That the commissioner of farm-land banks shall be appointed by the President, by and with the advice and consent of the Senate, and shall hold office for the term of five years, unless sooner removed by the President upon reasons to be communicated by him to the Senate; and he shall be entitled to a salary of \$6,000 a year.

Appointment and term of office.

The commissioner of farm-land banks shall, within fifteen days of notice of his appointment, take and subscribe the oath of office, and he shall give to the United States a bond in the penalty of \$50,000, with surety or sureties to be approved by the Secretary of the Treasury, conditioned for the faithful discharge of the duties of his office.

Oath and bond.

SEC. 4. That the Secretary of the Treasury, at the request of the commissioner of farm-land banks, may appoint one deputy commissioner, who shall be entitled to a salary of \$3,500 per year, and who shall possess such powers and perform such duties under the commissioner as he shall direct. During a vacancy in the office of the commissioner, or during his absence or inability, the deputy commissioner shall possess the powers and perform the duties attached by law to the office of the commissioner. The deputy commissioner shall take the oath of office, and shall give a like bond in the penalty of \$30,000.

Deputy commissioner.

SEC. 5. That the commissioner of farm-land banks shall adopt a seal of office to be approved by the Secretary of the Treasury, a description of which seal, together with an

Seal.

impression thereof and a certificate of approval thereof signed by the Secretary of the Treasury, shall be filed in the office of the Secretary of State.

Rooms.

SEC. 6. That there shall be assigned from time to time to the commissioner of farm-land banks by the Secretary of the Treasury rooms for conducting the business of the bureau of farm-land banks, containing safe and secure fireproof vaults in which the commissioner shall keep all original articles of association and other valuable documents and things belonging to his department; and the commissioner shall from time to time furnish the necessary furniture, stationery, and other proper conveniences for the transaction of the business of his office.

Clerks.

The commissioner shall employ from time to time the necessary clerks, to be appointed and classified by the Secretary of the Treasury, to discharge such duties as the commissioner shall direct.

Interest in farm-land banks.

SEC. 7. That it shall not be lawful for the commissioner or deputy commissioner, or for any clerk employed in the bureau of farm-land banks, either directly or indirectly, to be interested in any farm-land bank formed pursuant to the provisions of this act.

Annual report of the commissioner.

SEC. 8. That the commissioner shall make an annual report to Congress at the commencement of its session, exhibiting:

First. A summary of the state and condition of every farm-land bank from which reports have been received during the preceding year, at the several dates to which such reports refer, with an abstract of the whole amount of mortgages or deeds of trust held by them and collateral trust bonds (hereinafter described as national land-bank bonds) issued by them, the whole amount of their other assets and liabilities, the amount of their capital stock, and such other information in relation to such companies as in his judgment may be useful or as may be requested by Congress.

Second. A statement of the companies whose business has been closed during the year, with the amount of their mortgages or deeds of trust and of their national land-bank bonds redeemed and the amount outstanding.

Third. Any other information which he may deem desirable to present and such special information as may be called for by Congress.

Fourth. The names and compensation of the clerks employed by him, and the whole amount of the expenses of the bureau of farm-land banks during the year, together with a full and complete list of all officers, agents, clerks, and other employees of his office, including examiners, receivers, and attorneys for receivers, and clerks employed by them, or any other person connected with the work of said bureau in Washington or elsewhere whose salary or compensation is paid from the Treasury of the United States or assessed against or collected from existing or failed companies under supervision or control.

When the annual report provided for in the last section is completed, or while it is in process of completion if thereby the business may be sooner dispatched, the work of printing shall be commenced under the superintendence of the Secretary of the Treasury, and the whole shall be printed and ready for delivery on or before the first day of December next after the close of the fiscal year to which the report relates. There shall be printed not to exceed ten thousand copies; one thousand for the Senate, two thousand for the House, and the remainder for distribution by the commissioner.

Printing of the report.

SEC. 9. That within ninety days after the approval of this act, or as soon thereafter as may be, the Secretary of the Treasury shall formulate and adopt the plans, rules, and regulations governing the operations of the bureau of farm-land banks, in accordance with this act, which plans, rules, and regulations shall be enforced by the said commissioner of farm-land banks.

Regulations to be adopted within 90 days.

POWERS OF COMMISSIONER OF FARM-LAND BANKS.

SEC. 10. That the commissioner of farm-land banks is authorized and empowered upon proper application to issue charters or certificates of incorporation for the establishment of national farm-land banks as herein provided for; and to exercise supervision and control over, and make examinations of, all of the national farm-land banks established under this act, under such general rules and regulations as may be provided; and to withdraw or forfeit such charters or liquidate such banks whenever necessary, in accordance with rules to be provided, subject in all respects to the requirements and provisions herein contained.

Incorporation of national farm-land banks.

SEC. 11. That the said commissioner of farm-land banks is hereby authorized, by general rules and regulations to be approved by the Secretary of the Treasury, applicable alike to all the national farm-land banks organized hereunder, to specify the conditions under which the privileges herein authorized to be granted to all said national farm-land banks shall be extended to such banks; and particularly to provide for the extension of such privileges only to national farm-land banks operating in those States which, by the passage of suitable laws, have met the requirements of the said commissioner of farm-land banks (1) as to the simplification of land-title registration and conveyancing, (2) as to the simplification, promptness, and economy of methods of securing farm-land loans and of foreclosing the same, and as to other matters as more fully set out in section 34 of this act. And the said commissioner of farm-land banks shall, by like general rules and regulations to be approved by the Secretary of the Treasury, have the power to specify the time when such rules and regulations or certain of them shall go into effect, and the time within which

Bureau of farm-land banks may withhold privileges granted hereunder.

(1) Land titles simplified.
(2) Mortgages and foreclosure simplified.

Power to specify time.

And to extend time. such conditions or certain of them must be complied with, and to extend such time, and to withhold such privileges or certain of them from the national farm-land banks operating in any State failing to comply with the required provisions and regulations, until the same are fully complied with.

Amortization tables; how prepared. SEC. 12. That the commissioner of farm-land banks, by and with the approval of the Secretary of the Treasury, shall from time to time prepare and publish amortization tables, covering periods of from six to thirty-five years, at varying rates of interest, to meet all the requirements of the banks organized hereunder. Such tables shall be adopted and used by all of such banks as the basis of all repayments of long-term mortgage loans herein provided for.

INCORPORATION OF NATIONAL FARM-LAND BANKS.

A national farm-land bank may be formed by any 10 persons. SEC. 13. That the associations for carrying on the business of farm-land banking under this act may be formed by any number of natural persons, not less in any case than ten. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be signed by the persons uniting to form the association, and a copy of them shall be forwarded to the commissioner of farm-land banks to be filed and preserved in his office.

Organization certificate to specify. SEC. 14. That the persons uniting to form such a national farm-land bank shall, under their hands, make an organization certificate, which shall specifically state:

First. The name. First. The name assumed by such association. The words "national farm-land bank" shall be a part of the title of every such institution, and these words shall not be used by any institution other than those incorporated under this act: *Provided, however,* That if the persons uniting to form such a national farm-land bank shall wish to apply cooperative principles in the formation and management of the same, the words "national farm-land bank, cooperative," shall be a part of the title: and the word "cooperative" shall not be used by any national farm-land bank other than those which accept the following principles and provide in their by-laws that—

Stock ownership. (a) No stockholder shall own more than ten per centum of the share capital at any time.

Voting. (b) At all meetings of the stockholders of such banking corporation each stockholder shall have one vote and only one on all matters pertaining to the organization or management of the institution, irrespective of the number of shares of stock owned by such stockholder.

(c) The net earnings of such banking corporation available and set aside for the payment of interest and dividends shall be distributed as follows:

Dividends.

To each owner of stock of such corporation may first be paid a dividend in the form of interest upon the par value of the shares of stock owned by such owner of stock, computed at the rate of interest generally prevailing in the community where such bank is located, but not exceeding the legal rate of interest in the State where such banking corporation is situated, if said earnings are sufficient for that purpose; otherwise, to be paid to each owner of such stock pro rata computed upon the par value of such stock. The balance of such net earnings, if any, shall be distributed among the patrons of such banking corporation in proportion to the amount of business transacted with such bank: *Provided, however,* That in such distribution the share-owning patrons may, if approved by a two-thirds vote, take dividends at a rate twice as great as that paid to the non-share-owning patrons.

(d) The shares of stock of such national farm-land banks, cooperative, may be of the par value of \$25 each.

Par value of shares.

(e) In all other respects such national farm-land banks, cooperative, shall conform to and be governed by the general laws as herein provided.

No other differences.

The words "national farm-land bank" or "national farm-land bank, cooperative," shall be prefixed by such descriptive title or name as the applicants may indicate, subject to the approval of the commissioner of farm-land banks. Each said national farm-land bank shall be designated by an official number provided by the commissioner of farm-land banks.

Official number.

Second. The State in which the operations of such national farm-land banks are to be carried on, and the place in said State where its principal office is to be located, which place may be changed from time to time upon the request of such national farm-land bank, with the approval of the commissioner of farm-land banks.

Second. The State where bank will operate and its home office.

Third. The amount of capital stock, and the number of shares into which the same is to be divided: *Provided,* That such capital stock shall in no case be less than \$10,000: *And provided further,* That such capital stock may be increased or decreased from time to time, subject to the approval of the commissioner of farm-land banks, but at no time to be less than the minimum herein set forth.

Third. Amount of capital stock.

Minimum.

Right to increase or decrease stock.

Fourth. The names, and places of residence of the shareholders, and the number of shares held by each of them.

Fourth. Names and residences of shareholders.

Fifth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this act.

Fifth. Purpose of certificate.

SEC. 15. That the organization certificate shall be acknowledged before a judge of some court of record, or before a notary public, and shall be, together with the

Organization certificate. How acknowledged.

Authenticated. acknowledgment thereto, authenticated by the seal of such court or notary public, transmitted to the commissioner of farm-land banks, who shall record and carefully preserve the same in his office.

Recorded.

POWERS AND LIMITATIONS OF NATIONAL FARM-LAND BANKS.

GENERAL POWERS.

When charter of national farm-land banks effective.

SEC. 16. That upon duly making and filing the articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate; and as such, and in the name designated in the organization certificate, shall have power:

General powers.

First. To adopt a seal.

Second. To continue for 50 years unless dissolved.

First. To adopt and use a corporate seal.

Second. To have succession for the period of fifty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association or by the act of its shareholders owning two-thirds of its capital stock; except that, in the case of cooperative farm-land banks, a vote of two-thirds of the stockholders shall be necessary, or unless its franchise becomes forfeited by some violation of law: *Provided*, That the charters of all national farm-land banks shall be at all times subject to change, amendment, or repeal under general laws enacted by Congress: *Provided*, That no such change, amendment, or repeal shall in any way affect the rights of the creditors of such national farm-land banks.

Forfeited.

Amended.

Rights of creditors preserved.

Third. To contract.

Fourth. To sue and be sued.

Fifth. To elect directors and officers.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend in any court of law and equity as fully as natural persons.

Fifth. To elect or appoint not less than five nor more than nine directors, and by its board of directors to appoint a president, vice-president, and other officers, to define their duties, require bonds of them, and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places: *Provided*, That the officer herein described as Federal fiduciary agent shall not be subject to removal by the board of directors or officers of said bank, but shall be subject to removal only by the commissioner of farm-land banks.

Dismissal of officers.

Federal fiduciary agent not under their control.

Sixth. To make by-laws.

Sixth. To prescribe by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors shall be elected or appointed, its officers elected or appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed, except that in the case of cooperative farm-land banks the by-laws shall be approved by two-thirds of the stockholders before being adopted and put into effect.

Seventh. To exercise incidental powers.

Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such in-

cidental powers as shall be necessary to carry on the business of farm-land banking: *Provided*, That the powers of such association shall include the following specific powers and shall be subject to the following specific restrictions:

A. SPECIFIC POWERS.

Every national farm-land bank shall have the following specific powers:

(a) To accept and pay interest on deposits to an amount not exceeding fifty per centum of the amount of its combined paid-up capital and surplus; to receive deposits of postal savings funds to the same extent and to pay interest thereon at the rate required of other banks receiving such deposits. The trustees of the Postal Savings System are hereby authorized and empowered to select national farm-land banks as depositories for such funds, which banks, when required by the Secretary of the Treasury, shall act as fiscal agent of the United States.

(b) To make loans upon farm lands anywhere within the State in which such national farm-land bank is operated: *Provided*,

(1) That such loans are made for not more than thirty-five years.

(2) That such loans are secured by a first mortgage or first deed of trust on farm lands.

(3) That such loans shall be made for any of the following purposes:

(a) To complete the purchase of the agricultural lands mortgaged.

(b) To improve and equip such lands for agricultural purposes.

(c) To pay and discharge debts secured by mortgages or deeds of trust on said lands.

(4) That such loans do not exceed fifty per centum in amount in the case of improved farm lands, and do not exceed forty per centum in amount in other cases, of the value of the said lands; to be determined by an appraisal, as provided in this act.

(5) That every such farm-land loan contain a mandatory provision for the amortization of such loan, or reduction of the same by annual or semiannual payments on account of principal: *Provided*, That the loan extends over a period exceeding five years.

(6) That every such loan may be paid off in whole or in part by the borrower, in accordance with rules to be prescribed by the commissioner of farm-land banks, at any interest period, after such loan has continued for five years, by the payment of the whole or a part of such loan, with interest to such date, after crediting the amortization payments on the same as and when they were made.

(c) To issue, sell, and trade in its own collateral trust bonds which shall be known and described as "national land-bank bonds" secured by the deposit, as elsewhere

Proviso.

Specific powers.

(a) To receive deposits.

(b) To loan on farm lands in the State: *Provided*.

(1) Loans for not more than 35 years.

(2) Loans are secured by first mortgage.

(3) Purposes of loans.

(4) Loans limited to 50 per cent of improved and 40 per cent of unimproved farm lands.

(5) Loans must contain provision for amortization.

Proviso.

(6) Loans can be paid off after five years.

(c) To issue, sell, and trade in its national land-bank bonds.

herein provided, of first mortgages or first deeds of trust (and of notes or bonds secured thereby), in an amount equal at least to the face value of the national land-bank bonds so issued and sold by the said bank: *Provided*,

(1) Limitations on interest rate to farmers.

(1) That the rate of interest upon the farm-land loans evidenced by the mortgages or deeds of trust held by the bank as security for its own national land-bank bonds shall not exceed the rate of interest paid on such national land-bank bonds by more than one per centum annually upon the amount unpaid on the loan, which said one per centum shall cover all charges of administration.

(2) National land-bank bonds subject to call at par.

(2) That all national land-bank bonds issued by the said bank shall be payable on a date specified and shall be subject to call at par, at any interest period, after the date of issue, or after a specified time, by such proper notice and advertisement as may be provided by the commissioner of farm-land banks.

(3) National land-bank bonds secured by at least an equal amount of farm loans.

(3) That such national land-bank bonds shall be always protected by the deposit, as security therefor, of at least an equal amount in face value of first mortgage or first deed of trust farm loans (and of notes or bonds secured thereby), maturing not less than five years after their date.

(4) National land-bank bonds to be retired as farm loans securing them are paid off.

(4) That as the amortization payments are credited upon the first mortgage or first deed of trust farm loans so deposited as security, the national land-bank bonds issued by the bank and secured thereby shall be called and paid, or purchased in the open market and retired, to the extent of the credits made upon such first mortgage or first deed of trust farm loans held as security for the same, under rules and regulations made by the commissioner of farm-land banks.

(5) Farm mortgages securing national land-bank bonds held jointly by bank and Federal fiduciary agent.

(5) That the first mortgage or first deed of trust farm loans (and the notes and bonds secured thereby) held as security for such national land-bank bonds shall at all times be in the joint possession and under the joint control of the said bank and of the Federal fiduciary agent hereinafter provided for, and that a register of such first mortgages or first deeds of trust shall be at all times kept by the bank, entries or cancellations in which shall only be made with the approval in writing of such Federal fiduciary agent.

Mortgage register—how kept.

(6) National land-bank bonds based on five-year loans.

(6) That no national land-bank bond shall be issued against any mortgage, deed of trust (or notes or bonds secured thereby) which falls due earlier than five years after its date.

(d) To use capital and surplus as revolving fund.

(d) To use its capital stock, surplus, and deposits as a revolving fund for the temporary purchase or holding of such first mortgage or first deed of trust farm loans; or to use the same for the purpose of buying in its national land-bank bonds and of holding them temporarily, so as to maintain the price of the same; or to loan its capital and surplus on first mortgages or first deeds of trust for a period not exceeding five years: *Provided*, That not to exceed fifty per centum of such capital and surplus may be permanently invested in such national-land-bank

bonds and in first mortgage or first deed-of-trust farm loans, and the remainder of the capital and surplus can be permanently invested only in United States Government bonds, in the bonds of the State in which such bank is operating, or in such other securities as may be authorized by the commissioner of farm-land banks.

(e) To buy and sell gold and silver coin and bullion; to collect notes, drafts, and bills of exchange; to discount commercial and other short-term paper and deal in national land-bank bonds of other farm-land banks with its deposits; to keep reciprocal accounts with other banks; to rediscount its commercial and other short-term paper with other banks; and to carry on a general banking business so far as its current deposits are concerned: *Provided*, That such deposits do not exceed fifty per centum of its capital and surplus, except as elsewhere herein specified. *Provided, however*, That farm-land banks, cooperative, may for and with their stockholders also do and transact the business now possessed and exercised by national banks under the laws of the United States, under such rules and regulations as may be prescribed by the commissioner of farm-land banks.

(e) To do a general banking business as regards its deposits and depositors.

B. SPECIFIC LIMITATIONS.

Every national farm-land bank shall be subject to the following specific limitations:

(a) The amount of national land-bank bonds that may be issued and outstanding at any one time by such national farm-land bank shall not exceed fifteen times its capital and accumulated surplus.

(a) National land-bank bonds must not exceed fifteen times capital and surplus.

(b) The charges of administration imposed by such national farm-land bank upon the borrower for handling such loan shall not in each instance exceed an annual charge of one per centum upon the amount unpaid on the loan.

(b) Administration charge must not exceed 1 per cent of loan.

(c) The payments to be made annually, or semiannually, by the borrower shall in all cases be sufficient to pay the interest charge upon the loan, the administration charges of the bank, and an amortization payment sufficient to retire and pay off the amount of the principal borrowed (as evidenced by the face of said first mortgage or first deed of trust and the notes or bonds secured thereby), at its maturity.

(c) Periodic payments to be sufficient in amount to pay interest charges and amortization.

(d) No national farm-land bank shall at any time loan any money upon the faith or credit, or upon the assignment, of its own stock, or of the stock of any other national farm-land bank; nor shall any national farm-land bank loan to, or on the credit of any one individual or institution, either on the security of land or on any other security, an amount in excess of twenty per centum of the sum of its then paid-in capital and surplus.

(d) No loans on stock.

No single loan to exceed 20 per cent of capital and surplus.

Eighth. But no national farm-land bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized.

Eighth. To transact no banking business until authorized.

ized to commence business by the commissioner of farm-land banks.

HOLDINGS OF REAL ESTATE.

What real estate may be held. SEC. 17. That a national farm-land bank may purchase, hold, and convey real estate for the following purposes and for no others:

First. Bank buildings. First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Mortgaged property. Second. Such as shall be mortgaged to it by way of security for loans made by it, as elsewhere herein provided.

Third. Land conveyed to it for debt. Third. Such as shall be conveyed to it in satisfaction of debts contracted in the course of business dealings.

Fourth. Lands purchased under judgments or foreclosures, or to secure debts due it. Fourth. Such as it shall purchase at sale under judgments, decrees, or mortgages or deeds of trust, held by the bank, or shall purchase to secure debts due to it.

Real estate to be disposed of within five years. But no such bank shall hold the title and possession of any real estate conveyed to or purchased by it to secure any debts due to it for a longer period than five years.

EXEMPTION FROM TAXATION.

Tax exemptions. SEC. 18. That every national farm-land bank incorporated under the terms of this act and the capital stock and surplus therein and the income derived therefrom and the mortgages and deeds of trust (and the notes and bonds secured thereby) held by said bank and the national land-bank bonds issued by the same shall be exempt from Federal, State, and local taxation, except in respect to taxes upon real estate.

FEDERAL FIDUCIARY AGENT.

Federal fiduciary agent. SEC. 19. That the commissioner of farm-land banks shall at the time of organization of each national farm-land bank designate some individual who is not an officer or director of the bank, and who is not objectionable to the directors of the bank, as a "Federal fiduciary agent" for that bank, who shall also be the representative of the bureau of farm-land banks. As such Federal fiduciary agent he shall have the following powers and perform the following duties:

Powers and duties. First. He shall certify to each national land-bank bond issued by the said bank, and no national land-bank bond issued without his signature shall be binding upon the said bank.

Second. Shall have joint possession with bank of mortgages securing national land-bank bonds. Second. He shall have joint possession and control with the bank of the mortgages and deeds of trust (and of the notes and bonds secured thereby) which are deposited as security for the national land-bank bonds issued by the bank, and no mortgage or deed of trust (or note or bond secured thereby) so placed in the joint possession of himself and the said bank shall be withdrawn or changed or

No changes in or credits on mortgages except with agent's written consent.

have any credit made thereon except by and with his consent in writing.

Third. He shall have the supervisory control of all entries in the mortgage ledger kept by the bank, in which ledger shall be kept a detailed statement of each issue of national land-bank bonds made by the bank, and of all the mortgages or deeds of trust (and notes or bonds secured thereby) held by the bank and himself jointly, to secure the national land-bank bonds of the bank, as well as such other information as may be required by the bureau of farm-land banks. And no entry shall be made in the said mortgage ledger indicating either the deposit of mortgages or deeds of trust, the withdrawal or substitution of mortgages or deeds of trust, or credits on mortgages or deeds of trust so held by the bank, except by and with his approval in writing, which approval may be signified by signing his name on the margin of the page in the mortgage ledger where such entries are made.

Third. Must control entries in mortgage ledger.

What mortgage ledger must contain.

Must signify approval of entries in writing.

May sign margin of page.

Fourth. He shall execute such bond with such security as may be required by the commissioner of farm-land banks. The salary and expenses of said Federal fiduciary agent shall be fixed by the joint agreement of the bank and of the commissioner of farm-land banks and shall be paid by the national farm-land bank with which he is acting:

Fourth. Bond.

Salary and expenses.

CAPITAL STOCK.

SEC. 20. That the shares of stock of each national farm-land bank shall be of the par value of \$100 each, and each stockholder shall be entitled to one vote for each share of stock standing in his name: *Provided, however,* That in the case of national farm-land banks, cooperative, each stockholder shall be entitled to one vote and only one, and the shares of stock may be of the par value of \$25 each. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, or employee of such bank shall act as proxy, and no shareholder whose liability is past due or unpaid shall be allowed to vote. Any national farm-land bank may, in its by-laws, authorize cumulative voting for directors.

Capital stock and voting power.

SEC. 21. That at least fifty per centum of the capital stock of every national farm-land bank shall be paid in before it shall be authorized to do business, and the remainder of the capital stock of said bank shall be paid in, in installments of at least ten per centum each on the whole amount of the capital, as frequently as one installment before the end of each succeeding month from the time it shall be authorized by the commissioner of farm-land banks to commence business, and the payment of each installment shall be certified to the commissioner of farm-land banks, under oath, by the president or cashier of the bank.

Payments on capital stock.

SEC. 22. That whenever any shareholder or his assignee fails to pay any installment on the stock when the same

Enforcing stockholders' liability.

is required by the preceding section to be paid, the directors of such bank may sell the stock of such delinquent shareholder at public auction, having given three weeks' previous notice thereof in a newspaper of general circulation published in the city or county where the bank is located (or if no newspaper is published in said city or county, then in a newspaper published nearest thereto), to any person who will pay the highest price therefor, to be not less than the amount due thereon, with the expenses of advertisement and sale; and the excess, if any, shall be paid to the delinquent shareholder. If no bidder can be found who will pay for such stock the amount due thereon to the association and the cost of advertisement and sale, the amount previously paid shall be forfeited to the association, and such stock shall be sold as the directors may order, within six months from the time of such forfeiture; and if not sold, it shall be canceled and deducted from the capital stock of the association. If any such cancellation and reduction shall reduce the capital of the association below the minimum of the capital required by law, or below one-fifteenth of its outstanding national land-bank bonds, the capital stock shall, within thirty days from the date of such cancellation, be increased to the required amount, in default of which a receiver may be appointed, according to the provisions of section fifty-two hundred and thirty-four of the Revised Statutes, so far as it may be applied hereto, to close up the business of such bank.

Increase of capital.

SEC. 23. That any bank formed under this act may, by its articles of association, provide for an increase of its capital from time to time, as may be deemed expedient, subject to the limitations of this act. But the maximum of such increase to be provided in the articles of association shall be approved by the commissioner of farm-land banks; and no increase of capital shall be valid until the total amount of such increase is paid in and until notice thereof has been transmitted to the commissioner of farm-land banks, who shall thereupon issue to such bank his certificate, specifying the amount of such increase of capital stock, with his approval thereof, and after it has been duly paid in it shall be treated as part of the capital stock of such association.

Reduction of capital stock.

SEC. 24. That any bank formed under this act may, by the vote of shareholders owning two-thirds of its capital stock, or in the case of national farm-land banks, cooperative, by the vote of two-thirds of the stockholders, reduce its capital to any sum not below the amount required by this act to authorize the formation of such a bank; but no such reduction shall be allowed which will reduce the capital and surplus of the association below one-fifteenth of its outstanding national land-bank bonds as herein provided; nor shall any such reduction be made until the amount of the proposed reduction has been reported to and approved by the commissioner of farm land banks.

BOARD OF DIRECTORS.

SEC. 25. That the affairs of each bank shall be managed by not less than five nor more than nine directors. All directors shall be elected by the shareholders at a meeting to be held at any time before the association is authorized by the commissioner of farm-land banks to commence business, and afterwards at meetings to be held on any such date in January of each year as is specified therefor in the articles of association. The directors shall hold office for one year, and until their successors are elected and qualified.

The election of directors.

SEC. 26. That every director must, during his whole term of service, be a citizen of the United States; and at least three-fourths of the directors must reside in the State or Territory in which the bank is located for at least one year immediately preceding their election, and must be residents therein during their continuance in office. Every director must own, in his own right, at least five shares of the capital stock of the bank of which he is a director. Any director who ceases to be the owner of five shares of stock, or who becomes in any other manner disqualified, shall thereby vacate his place.

Qualification of directors.

SEC. 27. That each director, when appointed or elected, shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such bank, and will not knowingly violate or willingly permit to be violated any of the provisions of this act, and that he is the owner in good faith, and in his own right, of the number of shares of stock required by this act, subscribed for by him or standing in his name on the books of the bank, and that the same is not hypothecated or in any way pledged as security for any loan or debt. Such oath subscribed by the director making it, and certified by the officer before whom it is taken, shall be immediately transmitted to the commissioner of farm-land banks, and shall be filed and preserved in his office.

Oath required from directors.

SEC. 28. That any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election.

Filling vacancies.

SEC. 29. That if, from any cause, an election of directors is not made at the time appointed, the bank shall not for that cause be dissolved, but an election may be held on any subsequent day, thirty days' notice thereof in all cases having been given in a newspaper published in the city, town, or county in which the bank is located; and if no newspaper is published in such city, town, or county, such notice shall be published in a newspaper published nearest thereto. If the articles of association do not fix the day on which the election shall be held, or if no election is held on the day fixed, the day for the election shall be designated by the board of directors; or if the direc-

Proceedings where no election is held on the proper day.

tors fail to fix the day, shareholders representing two-thirds of the shares may do so, or in the case of national farm-land banks, cooperative, two-thirds of the stockholders may do so.

Election of
president of
board.

SEC. 30. That one of the directors, to be chosen by the board, shall be the president of the board. One or more vice-presidents shall likewise be chosen by the board.

LIABILITY OF STOCKHOLDERS.

Individual li-
ability of share-
holders.

SEC. 31. That the shareholders of every national farm-land bank, shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank, to the extent of the amount of their stock therein, at the par value thereof, in addition to the amount invested in such shares, unless, in the case of national farm-land banks, cooperative, by a two-thirds vote of the stockholders a larger liability shall be undertaken.

Executors, trus-
tees, etc., not per-
sonally liable.

SEC. 32. That persons holding stock as executors, administrators, guardians, or trustees shall not be personally subject to any liabilities as stockholders; but the estates and funds in their hands shall be liable in like manner and to the same extent as the testator, intestate, ward, or person interested in such trust funds would be if living and competent to act and hold the stock in his own name.

CONVERSION OF EXISTING LAND-MORTGAGE COMPANIES AND OTHER STATE INSTITUTIONS INTO NATIONAL FARM- LAND BANKS.

Organization of
existing land-
mortgage com-
panies and other
State institutions
as national farm-
land banks.

SEC. 33. That any land-mortgage association or corporation, or any similar institution, including building and loan associations or savings and loan associations lending exclusively on farm mortgages, now incorporated under the general or special laws of any State, may become a national farm-land bank under this act, under a suitable name, upon complying with the provisions of this act; and in such case the articles of association and the organization certificate may be executed by a majority of the stockholders of the existing institution, and the certificate shall declare that the owners of two-thirds of the capital stock of the old institution have authorized the directors to make such certificate and to change and convert the institution into a national farm-land bank. The majority of the directors, after executing the articles of association and organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national farm-land bank. The directors of the old company may continue to be the directors of the national farm-land bank until others are elected or appointed, in accordance with the provisions of this chapter. When the commissioner of farm-land banks has given to such association a certificate

under his hand and official seal (after the provisions of this bill have been complied with), and after it is authorized to commence the business of farm-land banking, the bank shall have the same powers and privileges and shall be subject to the same duties, responsibilities, and rules, in all respects, as are prescribed for other banks originally organized as national farm-land banks, and shall be held and regarded as such a national farm-land bank; but no such bank shall have a less capital than the amount prescribed for national farm-land banks organized under this act, and no such corporation shall be authorized to do business as a national farm-land bank until the amount of its outstanding collateral trust bonds is so reduced that it does not exceed fifteen times the capital and surplus of the said bank, and until it complies in all other respects with the provisions of this act.

PRIVILEGES GRANTED TO NATIONAL FARM-LAND BANKS. Privileges.

SEC. 34. That the national land-bank bonds of any national farm-land bank shall be available for the following purposes: National land-bank bonds receivable.

First. As security for the deposit of postal savings funds in such national farm-land banks and all other banks authorized to receive such deposits. First. As security for postal savings funds.

Second. As a legal investment for time deposits of national banking associations, as provided in the Federal reserve act, and for the funds accumulated in savings banks organized and doing business in the District of Columbia. Second. As a legal investment for time deposits of national banking associations.

Third. As a legal investment for trust funds and estates under the charge of or administered by any of the courts of the United States. Third. As a legal investment by United States courts for fiduciary funds.

Fourth. As a security for loans from national banking associations to national farm-land banks or to individuals, for not exceeding five years, to an amount aggregating not over twenty-five per centum of the capital and surplus or to one third of the time deposits of the national banking association making such loan. Such loans to be made and held by the national banking association making the same, as being within the provisions of section 24 of the Federal reserve act, so as to permit national banking associations to lend to national farm-land banks, on their obligations secured by their national land-bank bonds, in place of making the loan directly on farm lands, as provided for in said section. Fourth. As security for loans by national banks to national farm-land banks, made under sec. 26 of Federal reserve act.

The foregoing privileges (or such of them as the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, may, by general rules applicable to all banks organized hereunder, from time to time designate), shall apply to national land-bank bonds issued under authority of this act, only as and when the following conditions (or such of them as the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, may from time to time by like general rules

designate) are likewise put into effect in any State or States.

(a) That homestead and other exemption laws are repealed or waived as to such mortgages. (a) That laws decided to be sufficient by the bureau of farm-land banks have been enacted by the State in which such national farm-land bank is operating, withdrawing, or canceling the right to claim exemption, or providing for the waiver of such exemption, whether homestead or otherwise, against the mortgages or deeds of trust (or notes or bonds secured thereby), held as security for the national land-bank bonds of such national farm-land bank: *Provided*, That if the right to waive such exemption is given, then that all the mortgages or deeds of trust (and bonds or notes secured thereby) deposited as security for such national land-bank bonds contain such waiver.

(b) That conveying and foreclosure are simplified. (b) That in the judgment of the commissioner of farm-land banks, the State laws providing for registration of land titles, conveyances, and foreclosures in any given State are such as to give reasonable protection to the holders of first mortgages and first deeds of trust on lands located within that State.

(c) That such national land-bank bonds are accepted as investments for State savings banks, trust funds, and insurance reserves of the State. (c) That the national land-bank bonds of all national farm-land banks, which are accepted under this law as security in the various matters above set out, shall be likewise accepted, under the State laws of the State in which such national farm-land bank is operated, as a legal investment for the funds of savings banks operating in that State, and of trust funds and estates held by or under the control of the courts of that State, and as a legal investment for the reserves of insurance companies incorporated under or operating under the laws of that State.

EXAMINATIONS.

Appointment of examiners.

SEC. 35. That the commissioner of farm-land banks, with the approval of the Secretary of the Treasury, shall, as often as shall be deemed necessary or proper, indicate a suitable person or persons to make an examination of the affairs of every national farm-land bank, and shall have power to make a thorough examination into all the affairs of the bank, and in doing so to examine any of the officers and agents thereof on oath, and shall make full and detailed report of the condition of the bank to the commissioner of farm-land banks. The person assigned to the making of such examination of the affairs of any national farm-land bank shall have the power to call together a quorum of the directors of such bank, who shall, under oath, state to such examiner the character and circumstance of such of its business as he may designate. The expense of the examinations herein provided for shall be assessed by the bureau of farm-land banks upon the banks examined in proportion to assets or resources held by such banks upon a date during the year on

Powers.

How appor-
tioned.

which such examinations are held, to be established by the bureau of farm-land banks. The provisions of section 26 of the Federal reserve act prohibiting the making of any loan or granting any gratuity to the examiner of a national bank shall apply with equal force to examiners of national farm-land banks, and the penalties and punishments therein provided shall be equally applicable to such examiners of national farm-land banks.

Gratuities to examiners prohibited.

SEC. 36. That the commissioner of farm-land banks shall require statements showing the condition of each bank to be published in a newspaper or newspapers published in the vicinity where the bank is located at such times as calls for such statements may be made by him, and in general conformity with the practice as to call for statements from national banking associations by the Comptroller of the Currency: *Provided*, That in the discretion of the Secretary of the Treasury, any or all examinations of national farm-land banks may be made by examiners who are commissioned to examine national banking associations.

Publication of statements.

DIVIDENDS.

SEC. 37. That the directors of each national farm-land bank shall be authorized to declare a dividend upon the outstanding and paid-up capital stock of such an institution out of the net earnings of the same: *Provided*, That in no case shall any dividend be paid which will impair the capital stock of the said institution, nor shall any dividend be paid which will reduce the amount of capital and surplus of each bank to less than one-fifteenth of the outstanding national land-bank bonds of the said bank: *Provided, however*, That in the case of cooperative farm-land banks the net earnings of such banking corporations available and set aside for the payment of interest and dividends shall be distributed as follows: "To each owner of stock of such corporation may first be paid a dividend in the form of interest upon the par value of the shares of stock owned by such owner of stock, computed at the rate of interest generally prevailing in the community where such bank is located, but not exceeding the legal rate of interest in the State where such banking corporation is situated, if said earnings are sufficient for that purpose; otherwise, to be paid to each owner of such stock pro rata computed upon the par value of such stock. The balance of such net earnings, if any, shall be distributed among the patrons of such banking corporation in proportion to the amount of business transacted with such bank: *Provided, however*, That in such distribution the share-owning patrons may, if approved by a two-thirds vote, take dividends at a rate twice as great as that paid to nonshare-owning patrons": *Provided further*, That a special reserve fund shall be maintained by each national farm-land bank, which special reserve fund

Dividends.

Must not impair capital.

Other restrictions.

Dividends in cooperative banks.

How declared.

shall be created out of the net earnings of the bank and shall at all times be equal to five per centum of the total annual interest charge on the land-bank bonds which are outstanding against such bank at the close of the last fiscal year. Such special reserve fund shall not be disbursed for any other purpose except to meet arrears in interest payment on land-bank bonds issued by such bank.

DIRECTORS' MEETINGS.

Directors must meet once each month.

Can appoint committees and delegate powers.

SEC. 38. That the directors of each national farm-land bank shall meet at least once in each month, and at such other times as are necessary. They shall have power to appoint committees and to delegate to such committees such portion of their powers as may be necessary for the convenient operation of the bank, subject to the approval of the bureau of farm-land banks.

APPRAISEMENT COMMITTEE.

Appraisement committee.

When appointed.

Composed of three directors. Names filed with commissioner of rural banks.

Duties.

Written reports.

Reports to be filed.

No loan without written report.

SEC. 39. That the board of directors of each national farm-land bank shall immediately upon its organization, and before making any loans upon farm lands, appoint an appraisement committee, which shall be composed of three members of the board of directors. The names of said appraisement committee shall be at once delivered to the commissioner of farm-land banks, and any change in the said committee shall be at once communicated to him. The duty of said committee shall be to appraise, or cause to be appraised, and report on the value of real estate offered as security for loans. All reports of the appraisement committee shall be made in writing, signed by a majority of the committee, and shall give a description of the property, the value at which it is appraised by them, the value at which it is assessed for taxation, and such other information as may be required by the directors of the bank or by the commissioner of farm-land banks. Such report shall be filed and preserved with other papers relating to such loan, and no loan shall be made on any farm land unless and until such report in writing has been filed with the said bank.

POSTAL SAVINGS DEPOSITS—DEPOSIT OF STATE FUNDS—RESERVES—LOAN OF CURRENT DEPOSITS.

Compelled to receive postal savings deposits.

SEC. 40. That all national farm-land banks shall, upon the request of the board of trustees of the postal savings system, receive deposits of postal savings funds to the extent of one-half their capital and surplus, and pay interest thereon at the rate required to be paid by other banks on similar postal deposits.

SEC. 41. That the limitation on the amount of deposits which shall be received by national farm-land banks, by which they are prevented from receiving deposits in excess of fifty per centum of their capital and surplus, shall not apply to deposits made with said banks by the Government in the shape of postal savings deposits, or other governmental deposits; nor shall it prevent the said banks from receiving deposits of State funds. On all time deposits of whatever character, the national farm-land banks shall maintain a cash reserve of at least five per centum; and on all check deposits shall maintain a reserve of at least twelve per centum, either in cash or in balances with other banks, under rules and regulations to be prescribed by the commissioner of farm-land banks. The postal savings deposits held by any such bank, except the five per centum reserve, may be invested only in first mortgage or first deed of trust loans on farm land, being secured to the Government by the deposit with it of the national land-bank bonds of any national farm-land bank complying with the rules of the commissioner of farm-land banks, approved by the Secretary of the Treasury, as prescribed in pursuance of the provisions of this act. The funds held on deposit by such banks for the State in which they operate may be invested as provided by the laws of such State.

Limitation on amount of deposits does not apply to postal savings or Government or State deposits.

Reserves 5 per cent on time deposits; 15 per cent on check deposits.

Postal savings deposits invested in national land-bank bonds.

State deposits—how invested.

DESTRUCTIBLE PROPERTY TO BE INSURED.

SEC. 42. That wherever the value of buildings or destructible property attached to the land is a part of the security for any loan, such buildings or destructible property shall be properly insured against loss by fire, and policies representing such insurance shall be properly assigned and deposited along with the mortgages under the joint control of the said bank and the Federal fiduciary agent. In such case provisions shall be made in the mortgages or deeds of trust for the payment by the borrower of an amount sufficient to pay the premiums on such insurance policies, in addition to the interest, amortization, and administration charges to be paid by him as herein set out. In appraising property for loans, the buildings and destructible property shall not be valued at more than twenty per centum of the total appraisalment.

Destructible property to be insured.

Payment of premiums provided for.

BRANCH BANKS.

SEC. 43. That no national farm-land bank shall be authorized to operate branches, but each said institution may, with the approval of the commissioner of farm-land banks, employ and maintain loan agencies throughout the State in which it is operated.

Branch banks not allowed.

SALES AGENCIES.

Sales agencies.

Outside of State.

SEC. 44. That any national farm-land bank may, with the consent of the commissioner of farm-land banks, maintain either within the State in which it is operating, or elsewhere, sales agents or agencies for the sale of its national land-bank bonds or for trading in the same.

HOW PERIODIC PAYMENTS MADE BY BORROWER ON MORTGAGE TO BE DETERMINED.

How borrower's interest rate fixed in such case.

Periodic payments not to be changed.

SEC. 45. That to the rate of interest to be borne by the national land-bank bonds to be issued by the bank shall be added the administration charge, together with a charge sufficient to amortize the loan by the time of its maturity, and in this way the periodic payment to be paid by the borrower on his mortgage shall be fixed, and this shall be set out in every mortgage and shall not be changed during the term thereof.

LOANS MAY BE PAID WITH NATIONAL LAND-BANK BONDS OF SAME SERIES—BANK MAY BUY IN ITS NATIONAL LAND-BANK BONDS AND HAVE CORRESPONDING AMOUNT OF MORTGAGES RELEASED.

How borrower may pay off mortgage.

Bank may buy and cancel its bonds and release mortgages.

Bank must pay par for bonds called for payment.

Must discharge lien when loan paid.

SEC. 46. That any borrower shall be entitled to pay off the amount of his mortgage or any portion thereof by presenting to the bank, on any interest period after the first five years, the national land-bank bonds of the bank of the same series as those issued against his mortgage. To the extent of such national land-bank bonds presented and canceled at such time, the borrower shall be relieved of his mortgage indebtedness and proper credits shall be made upon his mortgage. The Federal fiduciary agent shall evidence such credit. The bank issuing such national land-bank bonds shall also have the right at any time to buy in the open market its national land-bank bonds and to cancel the same, and thereupon to release a proportionate amount of the mortgages securing such national land-bank bonds. But in case any of such national land-bank bonds of the bank are called for payment by the bank, as hereinbefore provided, then the same must be paid off by the bank at par.

SEC. 47. That whenever the borrower pays his debt in full the bank shall promptly satisfy and discharge the lien of record.

GENERAL POWERS GIVEN TO COMMISSIONER OF FARM-
LAND BANKS.

General powers given to commissioner of farm-land banks.

SEC. 48. That the commissioner of farm-land banks, by general rules and regulations, shall prescribe the methods of keeping the mortgage register; of holding and pre-

serving the mortgages and the bonds secured by deed of trust in the joint possession of the bank and of the Federal fiduciary agent; of crediting payments on mortgages; of canceling mortgages; and of releasing the liens of mortgages in whole or in part; and the general rules and regulations for the conduct of the institutions provided for under this act. Such rules and regulations, not in conflict with the provisions of this act, shall be binding upon all the banks created under the same.

SEC. 49. That all matters relating to the organization and operation of said national farm-land banks created under this act shall be under the direction and control of the commissioner of farm-land banks, except as herein specified.

PENALTIES FOR VIOLATION OF LAW.

SEC. 50. That any officer, clerk, or agent of any national farm-land bank or any Federal fiduciary agent herein described, who commits any offense or malfeasance, such as described in sections fifty-two hundred and eight and fifty-two hundred and nine of the Revised Statutes of the United States, and section thirteen of the act approved July twelfth, eighteen hundred and eighty-two, being the law relating to national banks, shall be punished upon conviction as prescribed in the said laws relating to national banks. Offenses under
secs. 5208 and
5209, etc.

SEC. 51. That all acts and parts of acts inconsistent herewith are hereby repealed.



PART III.

PERSONAL OR SHORT-TERM CREDIT.

LETTER OF TRANSMITTAL.

UNITED STATES COMMISSION "TO INVESTIGATE AND STUDY IN EUROPEAN COUNTRIES COOPERATIVE LAND-MORTGAGE BANKS, COOPERATIVE RURAL CREDIT UNIONS, AND SIMILAR ORGANIZATIONS AND INSTITUTIONS DEVOTING THEIR ATTENTION TO THE PROMOTION OF AGRICULTURE AND THE BETTERMENT OF RURAL CONDITIONS."

WASHINGTON, D. C., *March 13, 1914.*

To the Senate and the House of Representatives:

We have the honor to submit herewith Part III of the report of the United States commission, appointed by the President and authorized by an act approved March 4, 1913, "to investigate and study in European countries cooperative land-mortgage banks, cooperative rural credit unions, and similar organizations and institutions devoting their attention to the promotion of agriculture and the betterment of rural conditions" and "to submit a report to Congress as early as practicable embodying the results of its investigations and such recommendations as it may see fit to make."

Parts I and II, relating to land-mortgage or long-term credit, were submitted to Congress on January 29, 1914, and printed as Senate document No. 380, Parts I and II, Sixty-third Congress.

Part III relates to personal or short-term credit.

Respectfully,

DUNCAN U. FLETCHER, *Chairman.*

RALPH W. MOSS, *Vice Chairman.*

THOMAS P. GORE.

HARVIE JORDAN.

JOHN LEE COULTER, *Secretary.*

KENYON L. BUTTERFIELD.

CLARENCE J. OWENS.

CONTENTS.

PART III.

	Page.
Introduction.....	9
People's banks.....	11
Number of banks and membership.....	11
Share capital.....	13
Liability.....	14
Working capital.....	15
Loans and investments.....	17
Profits and losses.....	20
Central banks and federations.....	22
Summary.....	22
Raiffeisen societies or rural credit unions.....	22
Number of banks, members, etc.....	23
Entrance fees and share capital.....	24
Liability.....	25
Working capital.....	25
Loans and investments.....	27
Profits and losses.....	28
Central banks and federations.....	29
Summary.....	29
Conclusions and recommendations.....	30

PART III.

PERSONAL OR SHORT-TERM CREDIT.

AGRICULTURAL CREDIT.

PART III.

PERSONAL OR SHORT-TERM CREDIT.

WASHINGTON, D. C., *March 13, 1914.*

To the Congress:

The last paragraph of the act making appropriations for the Department of Agriculture for the fiscal year ending June 30, 1914, approved March 4, 1913, authorized the creation of the United States Commission and defined its duties as follows:

That the President of the United States shall appoint a commission composed of not more than seven persons, who shall serve without compensation, to cooperate with the American Commission assembled under the auspices of the Southern Commercial Congress to investigate and study in European countries cooperative land-mortgage banks, cooperative rural-credit unions, and similar organizations and institutions devoting their attention to the promotion of agriculture and the betterment of rural conditions; and for the purpose of its investigations the commission shall be authorized to incur and have paid, upon the certificate of its chairman, such expenses in the city of Washington and elsewhere for the payment of the salaries of employees, clerks, stenographers, assistants, and such other necessary expenses as the commission may deem necessary: *Provided*, That the total expenses incurred for all purposes shall not exceed the sum of \$25,000; and the said commission shall submit a report to Congress as early as practicable embodying the results of its investigations and such recommendations as it may see fit to make.

In pursuance of the authority conferred on him by this act, President Wilson named as the members of this commission:

United States Senator Duncan U. Fletcher, of Florida.

United States Senator Thomas P. Gore, of Oklahoma.

Congressman Ralph W. Moss, of the fifth district of Indiana.

Col. Harvie Jordan, planter, of Atlanta, Ga.

Dr. John Lee Coulter, agricultural expert of the Census Bureau, Washington, D. C.

Dr. Kenyon L. Butterfield, president of the Massachusetts Agricultural College, Amherst, Mass.

Dr. Clarence J. Owens, managing director of the Southern Commercial Congress, Washington, D. C.

The members perfected an organization with Senator Duncan U. Fletcher as chairman and Congressman Ralph W. Moss to act as chairman in his absence, and with Dr. John Lee Coulter as secretary.

On January 29, 1914, your commission made its report pertaining to long-term or land-mortgage credit. This report pertains to personal or short-term credit.

From all information that the commission has assembled on the status of personal or short-time credit for farmers in the United States it is clear that very different conditions exist in different

parts of the country. In some it is perfectly clear that farmers have most of the institutions necessary, so far as personal or short-time credit is concerned. In all parts of the country farmers patronize to a greater or less extent small and medium national banks, small and medium State banks, as well as private banks. To a considerably smaller extent they patronize and are served by loan and trust companies and savings banks, both mutual and stock. Some other institutions of less importance are to be found.

In addition to these regularly established and recognized financial institutions, farmers are also served extensively or patronize extensively individual lenders. Farmers both borrow and lend as individuals to individuals, and also borrow from individuals other than farmers to a considerable extent, and possibly lend in some cases. Then, too, farmers depend upon the local stores and representatives of commission houses and other buyers of farm products and dealers in farm supplies for credit to a very large extent.

There are no data available to show how many farmers patronize the different institutions and agencies noted above, nor are data available to show to what extent they patronize these institutions. It is possible, however, to show the number of each type of institution indicated above, and it is also possible to show the number of persons who cater to farmers.

In the reports of the Comptroller of the Currency will be found statistics showing the number and location of national banks, State banks, private banks, loan and trust companies, mutual savings banks, and stock savings banks. The same reports show the extent to which these institutions lend with real property as security and also the extent to which commercial paper is backed by collateral or is "one-name" or "two-name" paper. They also show the extent to which this is "demand" or "time" paper.

The "occupation" statistics, published by the Bureau of the Census, Department of Commerce, show the number of real-estate agents, bankers, storekeepers, etc. It is not essential, however, in a brief report, to go into all of these details, although they should all be kept in mind in any movement to secure new legislation.

One of the first very definite and fundamental observations which must be accepted as a result of an examination into the characteristics of financial institutions in this country which serve farmers so far as credit is concerned is *that they were not constructed to serve the special needs of the farmers*. Because the financial institutions have not been constructed to serve the special needs of the farmers, other institutions, such as stores of all kinds and persons who are the purchasers of and dealers in farm products, have often been forced to furnish the financial aid necessary.

An illustration of the peculiar difficulties of short-term credit is given by J. R. Cahill, Esq., in a recent report (Agricultural Credit and Cooperation in Germany, S. Doc. No. 17, 63d Cong.). He states, on page 17:

For the provision of this form of credit in adequate amount and on suitable conditions as to interest and repayment, farmers, especially medium and small farmers, require a different credit organization from that which has been evolved for merchants and manufacturers; and for certain rather obvious reasons. The outstanding feature of the agricultural industry is the length of period of production. Within limits the manufacturer can hasten at will the process of production, and repeat his products, or the trader can restock his

store several times within the year; for the farmer the time of beginning and the time of finishing production are fixed by nature. Although the duration of the period of production may be shortened to some extent, artificial hastening processes are not applicable in most cases, and lack the effectiveness of the machine in industry. In certain important branches of agriculture the period of production may extend over several years: Thus a foal requires three or four years, and a calf two or three years before becoming utilizable or marketable. And the returns of agricultural production are more uncertain than those of commerce and industry owing to accidents of harvest, risk of disease, perishability of produce, and other causes. Another peculiarity—making due allowance for depressions and for numerous seasonal trades outside agriculture—is the irregularity of monetary returns from year to year, or their tendency to fall in certain months or periods in each year. Unless his farming is mixed [diversified] the farmer obtains his main receipts in autumn when he sells his crops [or other farm products, such as beef animals, wool, etc.]. Under these circumstances a banking system which aims at a rapid turnover of funds and grants credits of three and four months, with one or two renewals for like periods, is of very little advantage.

These special circumstances of agricultural production have been carefully studied by the commission.

PEOPLE'S BANKS.

Most European countries have recognized the different needs of the different classes of people, such as merchants, manufacturers, farmers, etc., and different institutions exist to serve the different classes; and yet it is true that in several countries there is one type of institution which to a very large extent serves the different classes, thus demonstrating that it is not absolutely essential that separate and distinct institutions exist.

It is not necessary to review here the different general financial institutions in European countries; this has been done by the Monetary Commission. But it is necessary to review certain special institutions which serve agriculture to a very large extent in addition to their other financial activities. The most important type of institution of this class is that popularly known as the "People's Bank." The best illustrations are found in Germany, Austria, and Italy, but some other countries have institutions quite similar in many if not most respects.

This particular institution developed in Germany, where it is popularly known as the "Schulze-Delitzsch" type of bank. It is described here first because it resembles in many respects the small private, state, and national banks found in many parts of the United States. It is quite probable that slight changes in our national banking laws would make it possible for the small banks of this country to extend their activities so that they might serve the same purpose in the same way that these banks now serve the farmers of Germany, Austria, Italy, and other European countries.

NUMBER OF BANKS AND MEMBERSHIP.

According to the latest report available (statistics of 1911) there were in Germany 1,051 of these banks which furnished details of their operations, which is about one-seventh of the number of national banks in the United States. The first important characteristic is the fact that the average membership of these German banks in 1911 was 639. This is doubtless many times the number of mem-

bers or owners of stock in the average national, state, or private bank in the United States. This is one of the reasons why these institutions are called "popular banks." An analysis of the type of membership shows the following:

	Per cent.
1. Independent agriculturists (farmers, etc.)	26.61
2. Wage-earning agriculturists (laborers, etc.)	2.42
3. Artisans	22.80
4. Merchants, manufacturers, etc.	19.00
5. Workmen, apprentices, and wage-earners generally	11.30
6. Professional men, civil servants, clerks, etc.	9.09
7. Persons living on pensions or possessing independent means	8.78
	100.00

From this little table it will be seen that 26.61 per cent of all members are independent farmers, and an additional 2.42 per cent represents farm laborers. This is the largest individual class of members.

In Austria this type of bank has grown very rapidly and the number far exceeds the number in Germany, where they developed first. In 1912 there were in Austria 3,599 of these institutions. Complete details for 1910 were secured from 2,862 of these banks, and they reported a membership of 1,704,090, which is an average of 595 members per bank.

It will be seen that in this respect the Schulze-Delitzsch banks of Austria are very similar to those of Germany. It is not necessary to speak at length of these popular banks of Austria, however, since they are only of minor importance so far as agriculture is concerned.

A new type of bank started in Austria (see description on p. 86), and after this the Schulze-Delitzsch banks gave very little attention to the needs of the farmers, but even up to now the Schulze-Delitzsch banks make loans for fairly large amounts to farmers known to be of good financial standing. Small loans are exclusively handled by the new type of bank to be described below. Only in Bohemia, Moravia, and Galicia are the Schulze-Delitzsch banks at all numerous among the farmers and serve to supply their needs. In this respect these banks, except in their general organization, serve the farmers just the same as small state, national, and private banks in rural districts.

In Italy the people's banks are called "Luzzatti banks," after the leader who adapted the Schulze-Delitzsch banks to Italian needs. They are almost identical in general organization with the Schulze-Delitzsch banks of Germany and of Austria. In 1908 the latest complete statistics available, there were 690 of these institutions in Italy, with a membership of 501,022, showing an average of 726 per bank, which again shows how similar this institution is to those found in the countries above referred to.

In Italy, as in Germany and Austria, the people's banks preceded the strictly rural banks, and in Italy, as in Germany and Austria, for a long period they served the farmers very considerably; but as in these two other countries so in Italy, they gave way to a new type of bank adapted particularly to the needs of the farmers. It should be noted, however, that just as they continue in Germany to have a large number of farmer members, so in Italy the same general condition prevails. The larger number of members of people's banks in Italy belongs to the lower middle class; 23 per cent are artisans or

small shopkeepers, 22 per cent small farmers, and 17 per cent clerks and professional men, leaving a comparatively small proportion for other classes of members.

It will not be necessary to refer to similar institutions in other countries in order to bring out this fundamental fact, that these European countries did not have small banks to serve the general needs of the great mass of the middle classes. In this country we have small national banks, State banks, and private banks. In European countries a type of institution, with a more diffused membership, developed to serve the needs of farmers. These institutions, some of which have been briefly referred to above, are made more popular for farmers than banks in this country, but they do about the same kinds of business. It is very probable that the banks of this country serve the farmers approximately to the same extent that these people's banks do in European countries. Inasmuch as they seem to fill the same general position in the national economy as those in the rural sections of this country, it seems desirable to give a brief further account of their general characteristics and form of organization.

SHARE CAPITAL.

The people's banks in different European countries secure their first capital by the issuing of shares; these shares are owned by the members. In the different countries visited the general impression was that the value of the shares was rather high. In 740 of these banks in Germany, which are affiliated with the National Federation, the shares are of a nominal value of approximately 300 marks, or \$71.

It is not necessary that the shares be paid for in one sum, however, the general arrangement being that members may pay for them in monthly installments. Toward payment for the share or shares subscribed by a member are placed, in addition to the monthly installment, any dividend which becomes due to him on a division of the profits. Only when the share is fully paid up does he receive such dividend in cash. The prospect of receiving dividends in cash incites the members to make every effort to complete their payment in the least possible time and thus become the actual owners of capital, even though it be on a modest scale.

The average paid-up capital per member naturally differs from the value of a share, inasmuch as not infrequently a member has paid up only part of the value of a share, while others have in their possession two or more shares. If we regard only the banks affiliated with the National Federation in Germany, we find that in 1882 the average paid-up capital was 223 marks (\$53), increasing successively to 226 marks (\$54) in 1892, 276 marks (\$65) in 1902, and 364 marks (\$87) in 1911. Some of these banks not attached to the National Federation have a slightly higher average paid-up capital per member, the result being that the average for all banks of this type in Germany in 1911 was 368 marks (\$88).

This total average paid-up capital per member is a further illustration of the popular characteristic of the banks. There are large numbers of members, and the banks are interested principally in the welfare of their own people. But with this large membership the total amount of share capital per institution is comparatively

large, the average for Germany being 235,294 marks (\$56,000) in 1911.

It will be noted from the above that the tendency is for the average paid-up capital per member to increase, there being an increase of more than 50 per cent in the last 30 years. There is also the same tendency with reference to the average value of individual shares of stock. The General Congress of Popular Banks held at Wiesbaden in 1896 recommended that the shares should be at least 300 marks (\$71), while a subsequent congress recommended that in all cases where the banks were based upon the limited-liability principle the minimum value per share should be 500 marks (\$119), and that the liability of the member should be three times the amount of shares held.

In Austria the same general condition is found, except that the value of the shares is lower than found in Germany and the average paid-up capital per member is naturally lower. Of the 2,862 Schulze-Delitzsch banks, which furnish particulars of their working condition, in Austria, in 1910, the membership was 1,704,090 and the share capital only 192,000,000 crowns (\$38,400,000), the average paid-up capital per member being only about 112½ crowns (\$23). In Italy the total number of members of the 690 people's banks reporting was 501,022, while the paid-up capital (including surplus) amounted to 155,664,000 francs (\$30,042,152), or an average of 311 francs (\$60) per member.

LIABILITY.

One of the most important characteristics of the people's banks is their status with reference to the liability of the members. Under any system of cooperation the general understanding is that mutuality is accepted as the foundation; in other words, that unlimited liability is accepted by the members and that each member pledges himself to be liable to the full extent of his resources for all accounts of the society to which he belongs. This principle has been found to be practicable where all of the members live in close proximity to each other and are generally known to each other. This has been particularly so where all are engaged in the same general line of work and are of the same general economic status. More particularly do the principles of unlimited liability obtain successfully where membership is quite definitely limited to a comparatively small number and where the members are carefully selected.

In the case of the popular banks being described, generally speaking, they are urban in character, although probably about one-fourth of the members are farmers. In the second place, the occupation of the members ranges over a great variety of callings; and in the third place, the membership is quite large, in fact, so large that, generally speaking, it would be impossible for any one member to know any large per cent of the other members. As a result of this, although these banks started as unlimited liability societies, they have gradually changed in many respects. Thus in 1911 out of a total of 952 banks of this type which reported in Germany 563, or 59.1 per cent, were of the unlimited liability type, while 385, or 40.5 per cent, had limited liability, and 4, or 0.4 per cent, were of a special mixed type, having unlimited liability to make supplementary payments. The general tendency is in the direction of limited liability, but

although the system of limited liability is steadily increasing, unlimited liability is still considered the best system on which to establish these popular banks in districts which are not yet familiar with cooperative credit. The system of unlimited liability seems to work particularly well when the societies are just beginning and while the membership is small and the members acquainted with each other.

In Austria, out of the 3,599 banks of this type reporting in 1912, only 603 were based upon the principles of unlimited liability, while 2,996 had adopted the principles of limited liability. In Italy, like Austria, the liability of the members is limited.

WORKING CAPITAL.

According to the report furnished by the 1,051 popular banks of Germany, at the end of 1911 the aggregate working capital was 1,668,250,151 marks (\$397,045,535). This is an average of 1,587,298 marks (\$377,776) per bank. The average per bank is rapidly increasing, as shown by the fact that the average for all banks reporting in 1886 was only 617,000 marks (\$146,846); that in 1898 was 800,000 marks (\$190,400); and that in 1902 was approximately 1,000,000 marks (\$238,000). The average working capital per institution is seen to be nearly three times as great as it was 20 years ago.

The following tables show the details for the 1,051 popular banks under consideration in Germany in 1911:

Popular banks in Germany in 1911.

Sources from which funds are derived.	Marks.	Percent- age of total working capital.	Average per bank (marks).
The banks' own funds:			
Share capital.....	247,294,344	14.8	235,294
Reserve funds.....	105,799,673	6.4	100,666
Total.....	353,094,017	21.2	335,960
Capital from outside sources:			
Private deposits.....	1,276,172,048	76.5	1,214,245
Debts contracted with banks or associations.....	38,984,086	2.3	37,093
Total.....	1,315,156,134	78.8	1,251,338
Total working capital.....	1,668,250,151	100.0	1,587,298

It will be seen that only 14.8 per cent of the total working capital represents share capital, 6.4 per cent represents reserve funds, thus making the proportion of the banks' own funds 21.2 per cent of the total working capital of these institutions. It will also be noticed that more than three-fourths of the total working capital represents private deposits, showing the confidence of the people who live in the vicinity of the banks of this type.

The average amount of share capital per bank was 235,294 marks (\$56,000), and the average per member was 368 marks (\$87).

It was originally proposed by Schulze-Delitzsch that each bank should furnish its own working capital; in fact, for many years this was the ambition of the originators of this system of institutions.

Seeing that this was impossible, the ideal was set at one-third of the working capital. Even at the present time there is considerable agitation in favor of increasing each bank's capital; that is to say, the share capital and the bank's reserve. The reason that this does not progress more rapidly is a fact that will be particularly stated under a discussion of the dividends, profits, and losses. At this point it is only necessary to indicate that these institutions work for high profits or dividends. It is a well-known fact that the interest paid on deposits is generally very low. As a result, the higher the ratio of the banks' own funds to the total working capital the lower becomes the ratio of the net profits to the share capital, and the lower, therefore, becomes the dividend.

The experience of these institutions in Germany for the last few years is that it is possible to attract a very large capital from outside sources in the way of private deposits by the payment of a reasonable interest, while on the other hand it is a much slower and much more difficult proposition to accumulate working capital by increasing the membership and increasing the share capital or reserve funds. Indeed, during the last few years the increase of capital from outside sources has been greater relatively than the increase in the bank's own funds, thus leaving the proportion of the bank's own funds lower at the present time than what it was some years back.

A further analysis of the item "private deposits" discloses the fact that the banks recognize savings deposits as distinct from ordinary deposits subject to check. The savings deposits are generally much smaller accounts and require a longer period of notice before withdrawal. In practice this distinction means but very little at the present time and might as well be disregarded, and as a matter of fact is rapidly being disregarded by the people's banks.

It would doubtless be proper to add the sums which the banks acquire by rediscounting with third parties the bills which they have discounted for their members to the debt contracted with banks or associations if the total funds secured from the outside were to be shown. At the end of 1911 there were in circulation bills for 51,497,470 marks (\$12,256,398). If this amount were added to the other two items representing outside capital, the total of this class would be 1,366,653,604 marks (\$325,263,557).

In contrast with Germany, the total share capital of the 2,862 popular banks which reported in Austria in 1910 was 192,000,000 crowns (\$38,400,000), an average of 67,086 crowns (\$13,417) per institution. The reserve for these same institutions amounted to 109,000,000 crowns (\$21,800,000), an average of 38,085 crowns (\$7,617) per institution. The total amount of deposits in hand, which seem to be comparable with the item "private deposits" in the German report, amounted to 1,751,000,000 crowns (\$350,200,000), or 611,810 crowns (\$122,362) per institution. At the same time the amount of loan capital, which it would seem must represent debts contracted with banks or associations, amounted to 332,000,000 crowns (\$66,400,000), an average of 116,003 crowns (\$25,200) per institution.

The following table, constructed from data available for Austria in 1910, is comparable to the one prepared for Germany presented on page 15.

Popular banks in Austria in 1910.

Sources from which funds are derived.	Crowns.	Percentage of total working capital.	Average per bank (crowns).
The banks' own funds:			
Share capital.....	192,000,000	8.0	67,086
Reserve funds.....	109,000,000	4.6	38,085
Total.....	301,000,000	12.6	105,171
Capital from outside sources:			
Deposits on hand.....	1,751,000,000	73.4	611,810
Loan capital.....	352,000,000	14.0	116,003
Total.....	2,083,000,000	87.4	727,813
Total working capital.....	2,384,000,000	100.0	832,984

Turning attention now to the situation in Italy, the latest data available in complete form pertains to December 31, 1908. At that time figures were compiled for 690 institutions with a membership of 501,022, or an average of 726 per institution. The following table shows as nearly as practicable comparable data pertaining to the working capital in Italy:

Popular banks in Italy in 1909.

Sources from which funds are derived.	Francs.	Percentage of total working capital.	Average per institution (francs).
Paid-up capital.....	98,310,108	7.1	142,478
Reserve funds.....	57,354,279	4.1	83,122
Current account and savings deposits.....	971,167,644	70.7	1,407,489
Bills accepted and payments due.....	3,158,671	.2	4,578
Debit renewals.....	20,251,029	1.4	29,349
Rediscout of bills.....	72,260,849	5.2	104,726
Miscellaneous creditors.....	151,591,163	11.3	219,697
Total working capital.....	1,374,093,743	100.0	1,991,440

It will be seen that the total paid-up capital represented only 7.1 per cent of the working capital, as compared with 14.8 per cent for Germany and 8 per cent for Austria. It will also be noticed that the reserve funds amounted to only 4.1 per cent, as compared with 6.4 per cent for Germany and 4.6 per cent for Austria. In contrast, it should be noted that the current account and savings deposits, which correspond with the private deposits of Germany and the deposits in hand in Austria, represent 70.7 per cent of the total working capital of Italy, as compared with 76.5 per cent for Germany and 73.4 per cent for Austria.

LOANS AND INVESTMENTS.

It is just as important to examine into the loans and investments or the credit side of the balance sheet as it is to examine into the working capital or debit side of the balance sheet. A brief analysis of the use made by these popular banks of the funds at their disposal should therefore be made.

The principal object of these institutions is to supply credit for their own members, and therefore one would expect that they would limit themselves to the particular work of granting loans under varying forms to the membership. The fact that loans are, as far as possible, strictly limited to the membership is one of the most important, if not the most important, reasons why the membership is so large and why the average paid-up capital is so small. It is impossible, however, to make the funds on hand in banks exactly balance the demands for credit by their members. It is therefore necessary, when the working capital supplied by the paid-up share capital, surplus funds, and deposits are insufficient, to borrow from outside sources, and it is equally desirable, where the working funds referred to exceed the demand of the members, to seek outside fields of investment.

It is also desirable to create a surplus fund for the safety of their own operations in case of insolvency of their members or the sudden withdrawal by the members of their deposits. Naturally this surplus would not be loaned to the members, but would be invested elsewhere.

In Germany all loans to members are referred to as "loans," while loans of other types are referred to as "investments." According to the credit side of the balance sheet of the 1,051 people's banks in Germany in 1911, 82.9 per cent represented outstanding loans to members, while 17.1 per cent represented loans of other kinds referred to as "investments." An examination of the details concerning the 286,051,023 marks (\$68,080,143), or 17.1 per cent, which represents the so-called "investments," shows that 4.2 per cent represents cash in hand, deposits with banks, etc.; 1.2 per cent bankers' acceptances; 6.5 per cent shares of stock or bonds held as investments; and 3.5 per cent real property, about one-half of which represents the offices, etc., the remainder being other real estate.

Referring now to the loans to members, the most important individual group or class is that known as "loans on current account." The total amount of this class as shown by the balance sheet at the close of 1911 was 544,065,524 marks (\$129,487,595), or 32.4 per cent of the total credit of the institutions under consideration.

The next most important item is referred to as "loans for fixed periods," the amount being 469,660,330 marks (\$111,779,158), or 28 per cent of the total.

In addition to these two items, reference should be made to the discount of commercial bills, amounting to 218,997,012 marks (\$52,121,290), or 13.1 per cent; and "mortgages and other land credits," amounting to 158,086,387 marks (\$37,624,560), or 9.4 per cent of the total credit.

The composition of the assets is seen from the table which follows:

Assets of popular banks in Germany in 1911.

Particulars.	Marks.	Per cent.	Average per institution (marks).
Loans for fixed periods.....	469,660,330	28.0	446,869
Loans on current account.....	544,065,524	32.4	517,664
Discount of commercial bills.....	218,997,012	13.1	208,370
Mortgages and other land credits.....	158,086,387	9.4	150,415
Investments.....	286,051,023	17.1	272,170
Cash in hand, deposits with banks, etc.....	71,000,000	4.2	67,554
Bankers' acceptances.....	20,800,000	1.2	19,790
Real property.....	58,400,000	3.6	55,566
Offices, etc.....	30,700,000	1.8	29,210
Other real property.....	27,700,000	1.7	26,356
Miscellaneous items.....	27,651,023	1.7	26,309
Shares and bonds.....	108,200,000	6.5	102,949
Total.....	1,676,860,276	100.0	1,595,488

It will be seen that the total amount of loans at the close of the year 1911 was 1,390,809,253 marks (\$332,012,602), or an average of 1,323,318 marks (\$314,950) per institution.

In contrast it should be noted that the loans outstanding at the end of the year 1910 for 2,862 Schulze-Delitzsch banks of Austria which furnished particulars was 1,985,000,000 crowns (\$397,000,000), or 693,571 crowns (\$138,714) per institution.

It should be noted also that the total amount of loans granted during the year 1911 for the 1,051 popular banks of Germany was 4,647,752,971 marks (\$1,106,165,207), which is an average of 4,422,219 marks (\$1,052,488) per institution.

In the case of the 2,862 Austrian banks under consideration the total amount of loans granted during the year 1910 was 2,087,000,000 crowns (\$417,400,000), or an average of 729,210 (\$145,842) per institution.

A study of the rules governing loans and investments shows that in the case of fixed-period loans a guaranty is almost universally demanded. Only in the most exceptional cases are loans granted without guaranty. Of the aggregate fixed-period loans less than 2 per cent are in this class. The guaranty usually demanded is either a special guaranty in the form of pledges or a personal guaranty in the form of surety. Loans on personal guaranty form 86.7 per cent of the total loans for fixed periods. Only 11.4 per cent, which is all of the remainder, is advanced with pledges as guaranty.

From the fact that more than seven-eighths of all loans for fixed periods are secured by personal guaranty, it is clear that these popular banks are serving the needs of the particular classes of persons for whom they were originally established; that is to say, persons who are in a position to furnish security necessary for doing business with ordinary banks.

The borrower may give as receipt for the debt his simple note of hand, or an "accommodation bill." The employment of bills in this connection is one of the characteristics of the Schulze-Delitzsch system, the desire being to train the debtors of the banks to punctuality in business and at the same time to simplify the collection of the interest.

Finally the popular banks having familiarized their customers with the use of bills have succeeded in diffusing the business of bill-discounting. As a general rule, the loans are fixed at 90 days. This term may be, and generally is, considered extended by renewals which, however, are generally conditional on the repayment in cash of at least 10 per cent of the amount. At each time that bills fall due, after a small amount has been paid, a new bill is created for the lower amount. Thus the members of the banks become accustomed to the payment of their obligations by installments. They also are accustomed to punctuality in their dealings, and payment is made more easily.

As noted elsewhere, loans on current account represent the largest individual class or type of business done, and differ from loans for fixed periods in that the loan is not made out for a fixed period of time or for a fixed amount. The general rule is that a maximum is established and the borrower is allowed to secure credit from the bank at any time within the maximum amount. During this same time the borrower may make deposits and in that way repay the loan wholly or in part at any time. It is also true that frequently borrowers have paid in amounts exceeding the amount borrowed, and, therefore, have funds placed to their credit. Loans made on current accounts, like those made for fixed periods, may be guaranteed by surety, goods, or other effects, or even farm mortgages.

The third type of loan referred to, amounting to 13.1 per cent of the total loans and investments for the 1,051 popular banks of Germany in 1911, was entirely "discount of commercial bills." These refer to commercial bills which actually represent dealings in goods. They must be paid on falling due in their entirety. For this reason they not only afford extensive security to the popular banks, but they may in turn be rediscounted with other institutions whenever it is necessary to increase the working capital. As noted elsewhere, at the end of 1911 there were in circulation bills rediscounted with third parties amounting to 51,497,470 marks (\$12,256,398).

The popular banks of Germany and other European countries—much like the national banks of this country—do not have at their disposal capital adapted to the form of investment represented by mortgage and other land-credit instruments, and as a result only 9.4 per cent of the loans and investments represent mortgage and other land credits.

It is impossible to determine when the banks are dealing with genuine mortgage business and not merely with mortgages accepted as additional security for loans granted under other forms. This is equally true with banks of this country.

PROFITS AND LOSSES.

The officers of the International Institute of Agriculture at Rome, in referring to the Schulze-Delitzsch banks of Germany, stated, "They accumulate a considerable quantity of capital and they distribute fairly high dividends." In the matter of dividends, indeed, the Schulze-Delitzsch banks differ very little from the various kinds of commercial banks in the United States.

In order to illustrate this point reference might be made to the fact that the gross profits realized in 1911 by the 1,051 banks reporting

was practically 90,000,000 marks. Out of this, however, approximately 50,000,000 marks were paid in the form of interest on capital from outside sources. The gross profits represented 5.29 per cent of the total working capital. The total amount of interest, however, paid on borrowed working capital represented only 3.86 per cent of the total working capital. It will thus be seen that the institutions secured their working capital at a comparatively low rate and they are thus able to work on a margin of interest which allows them a very satisfactory profit without pressing unduly on their debtors.

The cost of management during the year 1911 was about 14,000,000 marks, being 16.27 per cent, or about one-sixth of the gross profits. This, however, was only 0.09 per cent of the total business done. After all expenses had been paid, including interest on all borrowed capital, general expenses, depreciation, and all losses, the net profits remaining, which included the balance from the preceding year, amounted to 22,000,000 marks. This is 8.45 per cent of the share capital, showing a very satisfactory result.

All of the net profits are not distributed by the Schulze-Delitzsch banks, which, as shown above, are very anxious to bring their reserve up to a very high level. Of the net profits, 29.7 per cent, therefore, was placed in the reserve fund in 1911. In addition to this large proportion placed in the reserve, a considerable amount was also expended in aid of propaganda work which is carried on, such as the publication of literature, the employment of organizers, etc. This would be an unheard of thing in the business of banks in the United States. But further than this, a considerable part of the net profits was donated by the banks for works of public utility, and a considerable amount was also distributed among the several employees in the form of bonus. Thus these popular institutions recognize employees not on a strictly profit-sharing basis, but recognize them in such a way as to share with them the net profits. Only about 60 per cent of the net profits, which in 1911 amounted to 13,000,000 marks, was distributed in the form of dividends. Even at this the dividends are comparatively high and intentionally so in order that the members will purchase stock and pay for the shares as quickly as possible, thus giving the institutions a good working capital of their own. Dividends declared are calculated in proportion to the amount actually paid up on the share or shares of the individual members.

A recent investigation showed that a considerable number of persons become members without any view of borrowing, but merely for the sake of investing their savings in shares of stock in order to get the high rate of interest. Shares are frequently as high as \$375, but inasmuch as the shares may be partly paid in at the beginning and gradually paid in completely this is no obstacle. Dividends of 6 and 7 per cent are not uncommon, and this is a decided incentive for persons to become members. Cahill (p. 19) says on this point:

This is probably especially true of a large proportion of the women members returned as belonging to this group, and who numbered 13,203 out of a total of 170,673, or 7.7 per cent, in 1911.

Although these institutions distributed only 6 per cent of the net profits in 1911, 753, or more than two-thirds of the banks reporting, distributed dividends ranging from 5 to 7 per cent. When compared with the rate of interest charged the borrower and the rate of interest paid on deposits, this seems to be a very satisfactory business basis.

An examination of various extremes shows that two banks distributed dividends of only 2 per cent, but on the other hand 14 banks reached 10 per cent, 1 bank paid a dividend of 18 per cent, and another a dividend of 25 per cent, thus showing that some of these institutions are extremely profitable. Clearly the institutions paying such high percentages of dividends have a comparatively small paid-up share capital and comparatively large amounts of deposits, but the effort is to increase the share capital.

What has been said with reference to the situation in Germany applies with practically the same force to the other countries where this type of institution is found in existence. Without going into any considerable amount of detail, it is worth while to note that in Italy the dividends on paid-up capital averaged nearly 9½ per cent during the years 1880-1882. Since that time the share capital has gradually increased, as noted elsewhere, in proportion to the working capital, and as a result dividends on paid-up capital have not been quite as high. They are still high, however, averaging in every year for which complete reports were obtained nearly if not quite 7 per cent, and in some years during the last decade averaging over 8 per cent.

CENTRAL BANKS AND FEDERATIONS.

The people's banks do not stand entirely alone; they are related to each other through systems of clearing houses and federated centrals, and are in constant touch with other financial institutions. This feature of the system has been so frequently and thoroughly presented in printed reports that it seems unnecessary to describe it in detail in this brief statement.

SUMMARY.

From an examination of the above statement of facts, it is clear that the small national banks, together with a very large number of State and private banks, differ only in minor details from the people's banks of Europe. The real important difference is the fact that the people's banks of Europe have adapted themselves much better to the needs of farmers and grant loans extending over a sufficient period of time so that farmers are able to patronize them and get thoroughly satisfactory results.

RAIFFEISEN SOCIETIES OR RURAL CREDIT UNIONS.

It is not at all likely that the present system of National, State, and private banks and trust companies, even if the recommendations made by this commission are adopted, will properly take care of all the needs of all farmers for short-term or personal credit. There are in the United States nearly, if not quite, six and one-half million farms at the present time. Of these only about 4,000,000 are operated by owners and managers. In the whole country more than 800,000 farms are less than 20 acres in size. Some of these are intensively cultivated and their operators doubtless have definite connections with banks, but most of them are probably not recognized in the

regular banking associations of the present day. At the same time hundreds of thousands of farms larger than 20 acres in size are operated by farmers who have no direct relation with the present banking system. It is very probable that only a small proportion of the two and one-third million tenants have regular banking connections. Institutions to meet the needs of these operators of small farms and these tenant operators must be seriously considered.

In addition to these it should be noted that during the average year approximately 3,000,000 farm operators employ labor. These laborers should have an opportunity to open bank accounts, but their business is so small that they do not at the present time have any bank connections. All told there are literally millions of the farm population who have not at the present time any banking relation worthy of note. The needs of this type of farmers and farm laborers have been taken care of very largely in European countries by small institutions, popularly known as "Raiffeisen societies," "credit unions," "credit associations," "credit societies," etc. Institutions similar to these are needed in the United States; if not in every State, at least in the great majority of States; and if not in every community, at least in many communities. In order that these institutions may be thoroughly understood, the following brief description is appended, which shows in a summary way the most important characteristics of these societies in the countries where they are most highly developed.

NUMBER OF BANKS, MEMBERSHIP, AND AREA OF OPERATION.

During the last three decades credit unions under various names have increased rapidly in number. Indeed, prior to 1880 the number was very small and the system not well known, but at the present time farmers in all parts of Europe understand credit unions and talk in terms of "credit unions" as readily as farmers in the United States talk in terms of "corn" or any other farm product. In Germany alone there are at the present time probably 17,000 of these societies, while 20 years ago the number was only about 1,700. This is representative of the change that has taken place in other countries as well.

The first news concerning these institutions was brought to Italy in 1880, and a few years afterwards a credit union was started. At the present time there are more than 2,000 in Italy. In Austria the movement started in 1886, and credit unions have been increasing rapidly in number ever since the first one was established; at the present time there are about 8,000. Similar illustrations could be cited with reference to other countries. Most recent to take up the credit-union idea is Ireland, and success there is well known. The farmers of Russia are rapidly establishing these institutions as are the French farmers. The credit union is a well-known institution in eastern Canada, where large numbers of societies have been established. In some parts of the United States farmers are already talking in terms of credit unions, and students of the subject have commenced to urge their establishment, but as yet the movement is rather new.

Turning now to the question of membership it should be noted that the average number of members per bank in Germany is ap-

proximately 100. Thus in Germany probably 1,700,000 farmers belong to credit unions. The same general average number per institution is found in other countries and, therefore, the extraordinary extent to which farmers have organized these small credit societies must be clear. The number, however, varies materially from one institution to another. For instance, in Germany the minimum number of farmers necessary to establish a credit union is seven, and at the time of the visit of the United States commission the authorities reported the fact that six societies existed with the minimum number of members. On the other hand, one credit union had 15 times the average number of members.

The small number of members in each credit union clearly indicates the general type of institution under consideration. But it should be noted that the members are almost always located in the same community and are not widely scattered over any district. In Italy the sphere of operation of rural banks is restricted to a commune, a portion of a commune, or a parish. Similarly in other countries the smallest subdivision is generally used as the area of organization.

ENTRANCE FEES AND SHARE CAPITAL.

According to the conceptions of the originators of the credit unions, entrance fees were not advocated because of the idea of mutual help which was then predominant. For many years as a result of this original idea entrance fees were unknown. As institutions established themselves, however, in different parts of the country variations in fundamental plans took place, and in some districts entrance fees became an important feature. These fees were immediately placed in the reserve fund and did not draw interest but were used as a revolving fund to carry on the business of the organization.

Just as entrance fees were not countenanced during the early years, so, too, share stock was excluded in order to avoid any possible chance of capitalistic speculation. Until 1876 credit unions were established without any share capital. In that year the imperial law of Germany compelled all cooperative societies to have foundation capital, and as a result German rural credit unions since that time have had small amounts of capital stock. In order to keep away, however, from the capitalistic idea, the shares were placed at the very minimum price and, generally speaking, even yet the maximum price of shares is only about \$2.50. In some regions the average paid-up share capital per member is only \$1 or \$1.50. On the other hand, one group of credit unions has made an effort to increase the share capital and comparatively large shares have been recommended, but in these cases the highest price has been approximately \$125 per share. The credit unions striving for a large share capital have had in mind strengthening the institution with reference to the securing of deposits, making of loans, etc., but even at the present time share capital, generally speaking, is an unimportant feature.

It was noted above that in Germany the share capital represented 14.8 per cent of the total working capital in "popular banks." In contrast, the share capital represents only 1.2 per cent of the total working capital in the case of "credit unions" throughout the German Empire. In Italy, as a rule, the rural banks or credit unions have no real initial capital, and in Austria, the credit unions being

modeled after the German societies of the same type, each member is required to take a share, which, however, varies in amount from about \$2 to \$4.

LIABILITY.

The principle maintained by the credit unions throughout the early period of their development was that of unlimited, joint, and several liability of all members. It is true that the principles of limited liability are found more and more in many other forms of cooperation throughout Europe, but all authorities urge that the principles of unlimited liability be maintained in connection with the credit unions. At the present time 92 out of every 100 credit unions in Germany continue to maintain the rules of unlimited liability, while only 8 out of every 100 have adopted limited liability. In these few cases where limited liability has been adopted considerable share capital is found, and these few may well be referred to as a movement in the direction of popular banks, varying in many of their details from the true credit unions. Here and there a credit union is based upon an intermediate system commonly referred to as the system of unlimited liability "to make supplementary payments."

This particular variation of the principles of unlimited liability is found best developed in Austria. Indeed, the Austrian Government presented a bill to Parliament in 1911 modifying the law relating to cooperative societies, and the main purpose of the bill presented was to substitute the system of unlimited liability "to make supplementary payments" for the present system of unlimited, joint, and several liability of all members. The difference between the two systems consists in the fact that, according to the new proposals the creditor would not be able to have direct recourse, in case of the liquidation of the credit union, to any particular member and, therefore, could not demand the payment of the sum which remains due to him. The society or credit union would be responsible to the creditor, and as such the credit union would have the right to demand pro rata payments from the members until the creditors were completely satisfied.

In Italy, as in Germany, the rule is unlimited liability. The whole purpose of this important rule is to prevent the misuse of the loans by compelling members to keep an eye upon one another and see that loans are not abused. At the same time this rule gives the credit unions the confidence of the public, and, since these little societies depend upon the public for deposits as working capital, the confidence of the public must be secured and maintained.

WORKING CAPITAL.

It has already been pointed out that share capital is a very unimportant part of the total working capital of the credit unions of Europe. To this may be added the statement that the reserve fund also is a comparatively unimportant part of the total. But compared with the share capital the reserve holds a very important place. Thus in Germany the reserve funds are more than twice the share capital. The same may be said as a general thing for Europe as a whole. This will be better understood when reference is made to the fact that profits or net earnings are generally turned into the reserve fund and not distributed to the members.

The most important source of the working capital is found in deposits on current account and savings deposits. This point was carefully discussed in connection with the popular banks and need not be considered in great detail here, except to indicate that just as share capital is a more important feature in "popular banks," so private deposits are a more important feature when "credit unions" are under consideration. These observations pertain chiefly to Germany, Austria, and Italy. Just as the popular banks secured more or less of their working capital from outside sources, so, too, the credit unions depend upon the outside to keep the margin necessary for satisfactory business operations. In some countries, such as Hungary, France, and probably Russia, large dependence is placed upon funds secured from outside sources. Central institutions look after this business and act as clearing houses for the thousands of small credit unions.

In Germany as a whole probably less than 10 per cent of the total working capital comes from transactions with outside institutions, showing in contrast with some other countries how largely these small credit unions are self-managing and self-sufficing societies. They depend almost entirely upon the local deposits to take care of the demands for money or credit. In any effort to classify the deposits, note should be made of the fact that deposits on "current account" represent less than 10 per cent of the total working capital, while "savings deposits" are nearly 80 per cent of the total working capital. When we remember that the total working capital of these credit unions in Germany alone is more than \$500,000,000, the extent to which these small primary units have succeeded and extended their influence throughout the Empire is very impressive.

Probably the distribution of the working capital of these institutions is much less important than the average working capital and the various parts thereof per institution. The popular banks were compared in many respects with the small national, state, and private banks of the United States. The credit unions have as yet practically no counterpart in this country. Thus the total working capital of the average "popular bank" in Germany was given as not far from \$400,000. In contrast, the average working capital of each "credit union" is only about \$40,000. Further comparison shows that the average share capital for "popular banks" in Germany is between \$50,000 and \$60,000, while the average share capital for all "credit unions" is less than \$500. Further comparison in detail is unnecessary, since the general statement may be made that the average credit union is about one-tenth the size of the average popular bank. The credit union is the primary unit and is found so thoroughly established throughout Europe that its importance in the financial system can not be ignored. The importance of similar institutions to this country must be apparent, and the detailed description is given only to indicate the position which these societies might hold in his country.

The following table shows the details for 12,797 credit unions in Germany from which detailed information was secured. As noted above there are in Germany about 17,000 of these credit unions, but complete details could not be secured from all since they are not under general Federal supervision in any way and statistics must be secured from federations of credit unions:

	Amount.	Percentage of the total working capital.	Average per bank.
The banks' own funds:	<i>Marks.</i>		<i>Marks.</i>
Share capital.....	24,047,345	1.2	1,879
Reserve.....	57,168,784	2.6	4,468
Total.....	81,216,129	3.8	6,347
Capital from outside sources:			
Deposits on current account.....	206,530,460	9.7	16,139
Savings deposits.....	1,659,073,346	78.0	129,644
Other liabilities.....	181,078,836	8.5	14,151
Total.....	2,046,682,642	96.2	159,934
Total working capital.....	2,127,898,771	100.0	166,281

Before passing from this subject it may be noted that great variations are found in the details when different credit unions are under consideration, but the variations are no greater than those found in national, state, and private banks of this country; and the variations between the institutions in the German Empire are no greater than those between Germany and Italy, Austria, Ireland, or Russia. It is therefore unnecessary to present detailed statistics showing the status of these small primary credit societies in the different countries where these institutions were inspected. It should be noted in passing that while in some countries the local deposits play an important part in others local deposits are insignificant.

LOANS AND INVESTMENTS.

The real object of these banks or credit unions is to secure credit and money for the members, and it therefore naturally follows that the capital obtained from the various sources just examined is used almost entirely for making advances to members. In institutions where the working capital exceeds the demand of the local community the surplus is devoted to safe, profit-yielding investments, and the common practice is to deposit this chiefly in central institutions. The leading classification of the loans and investments may be best indicated as follows: Loans are made, first, for fixed periods; and, second, on current account. Other assets represent investments, deposits in institutions, etc. Just as the savings deposits are about eight times as important as the deposits on current account in Germany, so loans made for fixed periods are about three times as important as loans on current account. Continuing to use Germany as an illustration, we find that more than 55 per cent of all loans and investments are made for fixed periods, whereas less than 22 per cent are on current account.

In connection with loans and investments, the "amount" of loans is important, but the "period" of loans is probably as important as any other feature. In the first two or three pages of this section of the report "pertaining to personal or short-term credit" some attention was given to the length of time for which farmers need to borrow. It was pointed out that loans to farmers generally must extend over periods from 90 days to 1 year. An examination of the practice of credit unions in Europe shows that loans generally vary from six months to two or three years. It is true that more than

one-fifth of the loans are on current account, and these probably do not extend for as long a period as six months. On the other hand, more than half of the loans are for fixed periods and extend over a longer period. In exceptional cases loans are made for even longer periods than for three years. The principal safeguard for the success of rural banks when loans and investments are under consideration lies in the very character of these primary units. The limited area of operation and the nature of rural life, together with the very small membership, make it possible for each member to keep an eye on the affairs of his fellow member, in which, moreover, he is directly interested. Indeed, farmers generally can easily judge at any moment of the solvency of their neighbors and know from day to day just how their neighbors are utilizing the money obtained from the credit union.

A common characteristic of these institutions is the provision that the applicant for a loan must declare the purpose for which it is to serve. In some cases the rules are so strict that, if a member applies for a loan for one purpose and uses it for another, he must be excluded from membership for a period of time and upon second offense must be prohibited from ever receiving further loans for any purpose. This rule has proved very efficacious, according to most reports. Variations are found in the different countries. Thus, as an illustration, in Italy loans are of two kinds and are generally made on the security of bills. These loans are frequently distinguished as short-time loans extending over a period not exceeding two years and ordinarily renewed every three months. The second type of loan frequently extends for as long a period as 10 years, and in these cases is commonly repaid by installments. Generally speaking, the interest on loans for long periods is slightly higher than the rate on short-time loans in this type of institution.

PROFITS AND LOSSES.

The purpose of credit unions is not to make commercial profits, but to give credit to members on favorable terms. As generally found throughout Europe this system does not even admit of any distribution of dividends. Where this rule is in complete force, all net earnings or profits are carried to the reserve fund or used in the creation of institutions of public utility or are devoted to the common good. A few of the credit unions, however, and particularly those which have a material share capital, provide for the distribution of dividends, but even in these cases rules are very strict, and the dividends never exceed the maximum rate of interest charged the borrower. In Austria the profits are never paid in the form of interest on shares, except in the very rarest cases, being placed in the reserve almost always, although in some cases small amounts are devoted to the common good. The same general rule applies in the case of Italy and other European countries.

The fact that no dividends are paid, or that dividends when paid are insignificant, does not mean that these credit unions are not prosperous. Taking Germany again as an illustration, because of the fact that Germany has literally thousands of these societies, we find that the great majority close their business each year with a respectable fund designated "net earnings." Out of the 12,797 credit unions referred to in the small table presented above, 11,795, or more

than 92 out of each 100, closed the last fiscal year for which reports are available with net earnings, while only 911, or 7 out of each 100, declared a loss. Ninety institutions closed their business for the year with a balanced sheet, showing neither profit nor loss.

If we take the total result of all these credit unions under consideration, the net earnings, after subtracting losses, amount to not far from \$2,000,000 for one year, or almost 30 per cent of the share capital of these institutions; but, as noted above, this is not declared in the form of dividends on the share capital, and, as a matter of fact, when the total working capital is considered, these profits represent only about 0.4 per cent, showing what a narrow margin the institutions consider safe.

During the last decade reserves have rapidly been increased, so that, generally speaking, these institutions are rapidly establishing themselves on such a safe basis that temporary losses are taken care of from reserve funds and no suffering results. The small difference between the interest charged on loans and the interest paid on deposits covers the management expenses, which amount to very little, since the general rule for credit unions is voluntary or gratuitous service. A successful farmer or farmer's son, the local priest or schoolmaster, or a local merchant or other local resident acts as chief clerk or manager, and although frequently he receives rent of a small home and possibly some little gratuity, salaries are not generally paid. Running expenses principally include an insignificant amount for rental and cost of business forms, etc.

CENTRAL BANKS AND FEDERATIONS.

These small credit societies or banks are closely related to each other through federations. Central banks are thus provided and a system of connected credit and banking is completed. The systems of federation are clearly described in other literature published by the commission (S. Doc. No. 214, 63d Cong., 1st sess.) and need not be further given in detail here.

SUMMARY.

A careful examination of the descriptions of these European banks or credit unions suggests the questions: Are these institutions necessary in this country; and if so, should they be provided for by law, or is any legislation necessary?

The members of your commission feel that such institutions are necessary in many, if not all, country communities in the United States. We will not take space or time here to establish this position, believing that it represents the unanimous opinion of farmers and of unbiased or unprejudiced observers acquainted with the problem.

The members of your commission are of the opinion that credit unions could be organized in almost every State in the Union, if not in every State, without specific legislation, as they were organized in many European countries and as they have already been launched in several American States. At the same time it is believed that legislation clearly defining credit unions, their scope, their functions, their methods of operation and limitations, as well as a system of inspection or supervision of these institutions, is eminently desirable.

The members of your commission are agreed that it is clearly within the power of the different States to pass the necessary legis-

lation, and we desire to call the attention of Congress to the specific laws of Massachusetts, New York, Wisconsin, and Texas providing for credit unions within those States.

CONCLUSIONS AND RECOMMENDATIONS.

The minimum capital for banks organized under Federal charter is fixed at \$25,000 in the national-bank act. The Federal reserve act reenacted this provision in fixing the capitalization for member banks in the new system. It follows, therefore, that the rediscount privilege created by the new law is extended only to banks having a capital equal to that of national banks under the old law.

There are more than 8,000 State and private banks in the United States with a smaller capital than that required by law of member banks in the new system. These banks are located mainly in small country villages and do business either directly or indirectly with farmers. No reorganization of our national banking system can be complete and just to the agricultural interests which deprives or withholds from these small banks participation in the benefits of the Government rate of discount.

In order to be sure of its ground, your commission addressed letters of inquiry to several hundred of these small State and private banks, asking if it was their purpose to increase their capital so as to join the new system; and if not, whether they would join were the capitalization to be reduced to \$10,000. The replies were practically unanimous. These banks will not increase their capital, because in most instances a capital of \$25,000 is not warranted by the volume of business transacted by them; this minimum is excessive for banks located in thinly settled farming districts. For this reason, then, and not from any spirit of hostility to it, these banks will not enter the new system. The very large majority of those replying stated that with a minimum capital of \$10,000 they would reorganize and become member banks of the regional system.

The decision of these country banks renders it certain that without amendment to the national-bank act relatively few farmers can become patrons of member banks in the reserve system. Thus the advantage of direct Government rediscount—which is the rational basis of all approved systems of short-time rural credit—will be largely withheld from farmers because of their residence in thinly settled parts of our country. Our rural population is justly entitled to receive credit direct from reserve banks in the same degree that urban population enjoys this advantage; and the method of bank organization should be such that residents of country districts can successfully overcome the disadvantages of their environment.

Your commission is of the opinion that a very few changes in the present banking systems would better adapt large numbers of existing small banks to the needs of great numbers of farmers and farm laborers, and at the same time leave these institutions unimpaired to perform the commercial functions for which they were primarily established.

We do not present a bill to effect the changes which seem to us to be desirable because we believe that the Committees on Banking and Currency in the Senate and the House of Representatives, through many years' study of the banking laws of this country, are better

qualified to perfect the amendments necessary than are the members of our commission. We content ourselves in bringing to your attention some of the more important details involved.

Having all of these facts in mind, your commission is of the opinion that it would be wise to provide for the incorporation of banking associations under Federal charter with a capital of less than \$25,000. The specific recommendation is that section 5138 of the national-bank act, as amended in 1900, be further amended to provide that banks with a capital of from \$2,000 to \$25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed 2,500 inhabitants.

Your commission would also recommend that all national banking associations with a capital of less than \$25,000 should have a distinctive name, such as National *Rural* bank, and in this event provision should be made prohibiting all other banking associations organized under either State or National law from using the distinguishing word "Rural" as a part of their title.

It is the judgment of your commission that in the provision for these national rural banks two types should be recognized by an arbitrary line of demarcation based upon the amount of capital. We therefore recommend that national rural banks having a capital of less than \$10,000, divided into shares of small par value, be permitted to do business only with members or their own shareholders, unless in the judgment of Congress they should be given the right to accept deposits from a wider clientele. This principle has been conclusively demonstrated in European experience and can be safely accepted. If the privilege be given to accept deposits from other than shareholders, it might be well to increase the degree of liability above that of double, or to permit such liability to be accepted voluntarily by the shareholders. The cooperative features suggested in the report pertaining to small farm-land banks could be adopted to advantage here. While under this form of organization, viz, that of limited banking power and small capitalization, these banks should be given the privilege of depositing any or all of their moneys in the postal savings banks. Your commission has satisfied itself that there are no administrative difficulties to be encountered, and this privilege is freely extended in European countries. It is not necessary to specify the manifest advantage which this privilege will give to a small bank doing a limited business in a small country village, which is the natural home of this class of banks. On the other hand, it is our opinion that national rural banks with a paid up capital of \$10,000 and less than \$25,000 should have the right to do a full banking business under the national-bank act, except holding a membership in the Federal reserve system. This provision of law would make it possible for small private and State banks to reincorporate as national rural banks.

Authority to incorporate national rural banks with a capital less than \$25,000 would in itself not be sufficient, since these small institutions would, under the present banking laws, be debarred from the Federal reserve system. It is the judgment of your commission that the best way to overcome this difficulty would be to amend section 5133 of the national-bank act by providing for the formation of national banks, with the approval of the Secretary of the Treasury, by any number of these rural banks, "not less in any case than five,"

and having an aggregate paid up capital of not less than \$50,000. In this connection it doubtless would be necessary to require all rural banks forming a national bank to be in one and the same Federal reserve district, and to stipulate that the national bank, when formed, should become at once a member of the reserve bank in the district in which it was located. In the formation of a national bank by rural banks it would probably be desirable to require them to hold 60 per cent of the capital stock of such member bank, thus leaving not to exceed 40 per cent for popular subscription. In this way country communities and agricultural interests could participate to the best advantage in the rediscount privileges provided by the Federal reserve act.

Students of this subject will recognize in these suggestions the elements of the French system of rural banks, which is the latest system to be devised and which has been tested sufficiently by actual experience to prove its efficacy. Happily, these principles adapt themselves very easily to our reserve system, and in our opinion would prove of large benefit to our rural population. We are aware that France supplements the rediscount advantage by the deposit of considerable sums of public moneys in these banks to be loaned exclusively to farmers. The Government of France is also very friendly to the agricultural interests of the nation and encourages a liberal policy by the Bank of France in extending rediscount privileges to the farm paper held by these small banks. The commission feels justified in assuming that the Federal reserve act will be administered in a similar spirit toward our agricultural interests; and, while making no recommendations to that effect, the commission records its conviction that in some sections of the United States either aid of similar character by our Government will be necessary or founders' shares will have to be purchased by men who are inspired by altruistic motives, if personal loans are to be speedily extended to farmers in all sections of the Republic at fair rates of interest.

Banking laws have been unfair to rural industry because farmers have been widely scattered and not in a position to use them, and because no special type of institution has been provided in the past to care for their special needs. As a result these laws have militated against the growth of industrial democracy, and unless supplemented will destroy the fruition of the new freedom to a large part of our industrial population.

Your commission believes that it is also within the power of Congress to pass laws providing for credit unions or cooperative credit associations and making them fiscal agents of the National Government; but the conditions of agriculture differ so widely, the needs of farmers vary so greatly, and the status of the different classes of people in rural communities are so unlike, that it is our opinion that such laws where called for can best be enacted by the various State legislatures.

DUNCAN U. FLETCHER, *Chairman.*
 THOMAS P. GORE.
 RALPH W. MOSS, *Vice Chairman.*
 HARVIE JORDAN.
 JOHN LEE COULTER, *Secretary.*
 KENYON L. BUTTERFIELD.
 CLARENCE J. OWENS.

